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World Business Newspaper TUESDAY MARCH 26 1996

US Supreme Court to decide on English-only law

The US Supreme Court is to decide on the constitutionality of an Arizona law which bars the use of any language other than English by state employees performing official duties. The issue has raised high passions in the election campaign, with both Senator Bob Dole, the presumptive Republican presidential nominee, and his only remaining challenger, conservative commentator Pat Buchanan, arguing that English should be declared America's official language. Page 14

Murdoch's Star TV targets China: Rupert Murdoch's Hong Kong-based Star satellite television service unveiled a new broadcast network aimed at improving its access to the Chinese market. However, Beijing officials were sceptical about these latest attempts to secure a stronger presence on the mainland. Page 14; New move to catch that falling Star, Page 6

Giscard to bow out as UDF leader: Valéry Giscard d'Estaing, the former French president, was set to bow out as leader of the Union pour La Démocratie Française (UDF), junior partner in the ruling coalition. Page 3

Daewoo lets Austrian group plan lapse: A letter of intent signed by Korean car maker Daewoo to buy a majority stake in Steyr-Daimler-Puch, the Austrian vehicle engineering group, has expired without the deal being completed. Page 16

Inchcape looks to distribution: Inchcape, the international marketing and services group, could raise more than £300m ($459m) from the sale of its testing services division as part of a strategy of focusing on its distribution businesses. Page 21

Bilfinger & Berger, the German construction group, is estimated to have incurred a £9m ($14m) loss on the sale of its 9.7 per stake in Birse, the UK construction group. Page 21

France to reduce border controls: France is to lift controls on its borders with Spain and Germany, two fellow members of the European Union's Schengen agreement on open borders. Page 3

Burmah in $37m disposal to Norsk: Burmah Castrol, the lubricants, chemicals and fuels group, is selling its service station business in Sweden to Norsk Hydro, Norway's biggest quoted company, for £24m ($37m). Page 20

Belgacom, the partially-privatised telecommunications company, increased net profits in its final year of full state ownership from BFr9.7bn to BFr10.7bn ($353m). Page 15

OECD statement on UK jobless: Unemployment could fall much further in the UK without triggering inflation, the Organisation for Economic Co-operation and Development believes. Page 8

Compaq Computer, the world's largest personal computer maker, is to launch products designed to break into the rapidly-growing market for computer networking equipment. Page 19

Israel hits election campaign trail: Israel's election campaign hit full stride with members of the governing Labour party voting in American-style primaries to set a list of candidates ahead of the national poll on May 29. Page 14

South Korea to invest $13m in N Ireland: A small South Korean machine tools company is to invest £8.5m ($13m) and create 230 jobs in west Belfast, giving a boost to one of the most economically depressed areas of Northern Ireland. Page 8

Commerzbank, one of Germany's leading banks, announced a doubling of its operating profits for 1995 to DM1.45bn ($982.9m) and a higher dividend payment of DM13.50 a share despite lower net income because the previous year's result was swollen by asset sales proceeds. Page 16

US greenback changes its stripes: US Treasury secretary Robert Rubin (below) displays the "improved" $100 bill in New York to mark its first day of issue. New watermarks and other features have been added to the bill in an attempt to make the note more difficult to counterfeit.

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	5652.89	(+16.25)
NASDAQ Composite	1088.84	(-13 38)
Europe and Far East		
CAC40	2003.83	(+29.48)
DAX	2510.32	(+6.30)
FT-SE 100	3681.9	(-25.1)
Nikkei	20915.44	(+214.52)

US LUNCHTIME RATES	
Federal Funds	$5\frac{5}{16}$%
3-mth Treas Bills: Yld	5.048%
Long Bond	$92\frac{1}{32}$
Yield	6.573%

OTHER RATES		
UK: 3-mo Interbank	$6\frac{1}{16}$%	(same)
UK: 10 yr Gilt	$95\frac{7}{8}$	($95\frac{1}{2}$)
France: 10 yr OAT	104.48	(103 61)
Germany: 10 yr Bund	97.07	(96.41)
Japan: 10 yr JGB	98.332	(98 112)

NORTH SEA OIL (Argus)		
Brent 15-day (May)	$19.74	(19.44)

GOLD		
New York: Comex		
(Apr)	$399.8	(398.9)
London:		
close	$397.9	(397.7)

DOLLAR		
New York: lunchtime		
£	1.52	
DM	1.47845	
FFr	5.06635	
SFr	1.1925	
Y	106.2	
London:		
£	1.5251	(1 5349)
DM	1.4777	(1 4753)
FFr	5.0578	(5 0626)
SFr	1.1921	(1.1935)
Y	106.13	(106.745)

STERLING		
DM	2.2536	(2.2643)
Tokyo close:	Y 106.75	

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13 00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$30	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh15	Slovak Rp	Sk65
Bulgaria	Lw130.00	Iceland	IKr250	Neth	Fl 4.75	S. Africa	R12 00
Cyprus	C£1.20	India	Rs75	Nigeria	Naira90	Spain	Pta250
Czech Rp	Kc62	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Denmark	DKr18	Italy	L3200	Oman	OR1.50	Switz	SFr1.70
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£85.00
Estonia	EKr 22	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
Finland	FM15.50	Kuwait	Fils650	Portugal (m'land)	Es240	Turkey	L70,000
France	FFr11.50	Lebanon	U$3.00			UAE	Dh12 00

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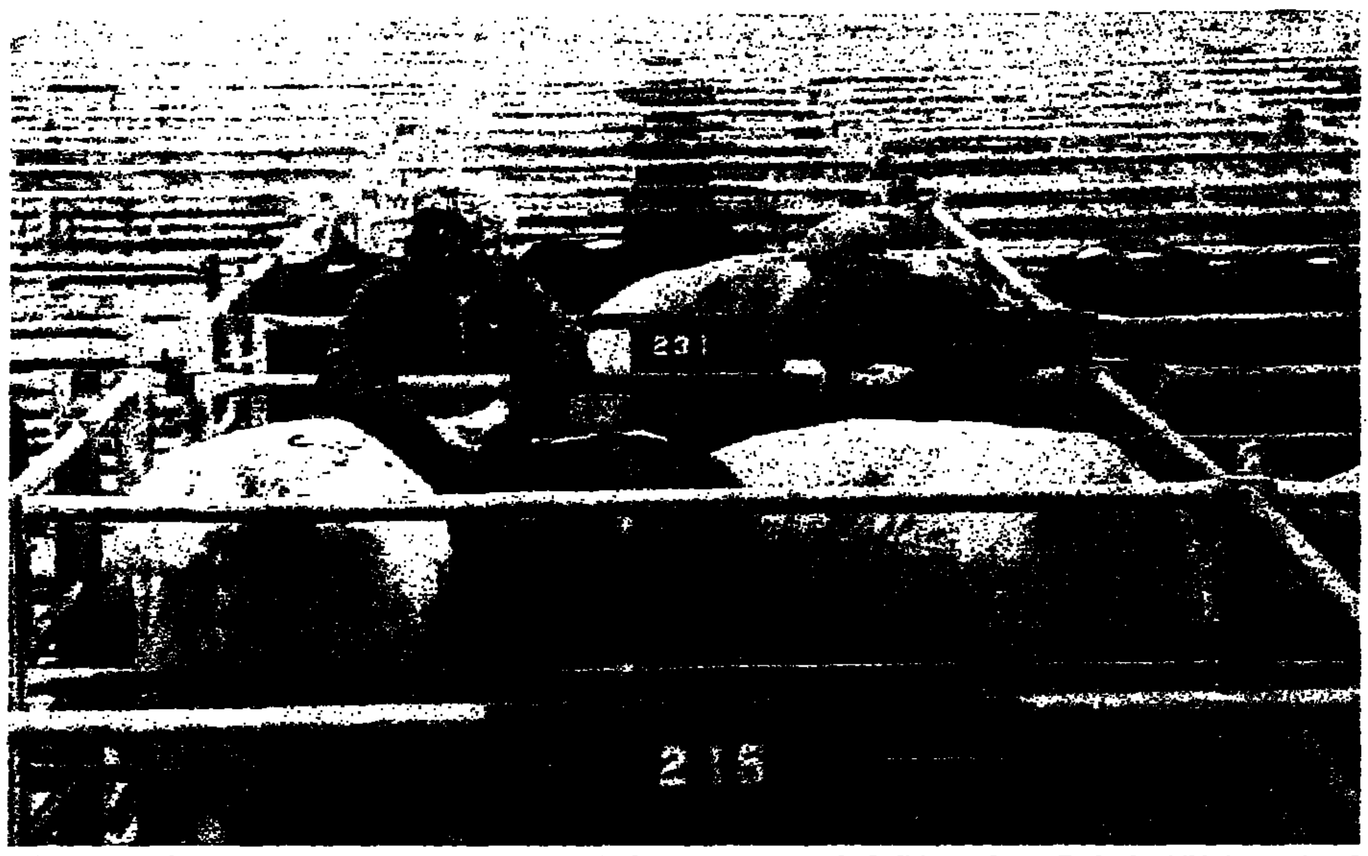
EU move to 'ringfence' mad cow disease set to devastate British farmers

Brussels bans export of UK beef

By Caroline Southey in Brussels and Alison Maitland and George Parker in London



Where's the beef?: Two farmers viewing the poor turnout of beef cattle at an auction in Carlisle, north-west England. At this time last week, before the latest BSE scare, the pens were packed with cows but yesterday only 66 beef cattle and 26 bulls were up for sale Picture: Reuter

The European Commission last night set itself on a collision course with the UK government by ordering a total ban on exports of all British and Northern Irish beef and beef products to the EU and to third countries.

The ban will have a devastating effect on the UK's beef industry and the wider food industry.

Mr Franz Fischler, EU agriculture commissioner, said the aim of the ban, which comes into effect tomorrow, was to "ringfence the problem in the UK and recover confidence in the EU meat market".

Describing the situation as "extremely serious", Mr Fischler said the ban would remain in place "until such time as, on the basis of scientific evidence, we feel we can say the measures can be revoked".

The ban extends to all live animals including calves, meat of slaughtered cattle, sperm, embryos, and all products made from beef and veal where the animals have been slaughtered in the UK.

Beef products such as gelatine and fat used in a wide range of food products would be banned. However, it was unclear last night whether the ban would extend to other food products such as biscuits, yoghurt and ice the cream. Even so, the implications for the wider food industry are devastating.

The ban also included products used for medicinal, cosmetic and pharmaceutical purposes.

The commissioner invited the UK to "continue measures to eliminate the problem", asking it to report back fortnightly to the Commission on what it was doing to ward off bovine spongiform encephalopathy (BSE).

He did not specifically call for the slaughter of British cattle but said the UK "has been called on to discuss with the Commission further proposals to control BSE".

On the question of aid for British farmers, Mr Fischler said a slaughtering campaign would involve "wide-ranging measures which will have to be clearly justified. We want scientific justification."

Mr Fischler rejected suggestions that the measures failed to protect British consumers. "We have taken on board proposals by the British government whose primary concern it is to protect its own citizens and we are willing to discuss further measures," he said.

The ban was agreed by the EU's standing veterinary committee, a policy-making body with representatives from all the member states. Only Britain voted against the measure.

News of the ban was greeted with a mixture of fury and dismay in London. Mr Stephen Dorrell, health secretary, said the decision was "outrageous and totally unjustified". The Ministry of Agriculture, Fisheries and Food was last night considering whether it could claim compensation from Brussels for the loss of trade to beef farmers.

Yesterday at a meeting in Downing Street, chaired by Mr

Continued on Page 14
Government may face lawsuits, Page 9; Consumers put the bite on burgers, Page 12

Kohl in jobs pledge after state poll success

By Peter Norman in Bonn

Chancellor Helmut Kohl yesterday promised that his ruling coalition would tackle Germany's problems of high unemployment and a shrinking industrial base following its success in Sunday's three state elections.

Speaking after meeting the leadership of his Christian Democratic Union, Mr Kohl said the Bonn coalition of Christian parties and the small liberal Free Democrat party was facing its most difficult year in the present four-year legislative period.

Financial markets responded positively to the unexpected election success of the coalition partners and in particular of the FDP. It campaigned on a pro-business platform and confounded opinion poll predictions to enter all three state parliaments in Baden-Württemberg, Rhineland-Palatinate and Schleswig-Holstein.

The DAX index of blue chip shares closed at a new record of 2,510.32, up 6.30 points. Government bond prices also advanced, although falling yields yesterday partly reflected the absence of significant inflationary pressures against the background of weak economic activity.

Mr Kohl pledged to push ahead with the government's 50 point programme to boost jobs and growth, agreed at the end of January, "without ifs and buts". He warned the main opposition Social Democratic party against trying to use its majority in the Bundesrat, the second chamber in Bonn which represents the federal states, to block the government's plans.

Sunday's polls, which also resulted in a drop in SPD support, were seen as confirming the viability of the Bonn coalition and killing speculation that it might have to be replaced by a "grand coalition" of Christian parties and the SPD.

Germany's present economic downturn yesterday prompted the country's powerful industry and trade lobbies to call on the government to build on its election successes and step up action to strengthen the economy and reduce the 4.27m jobless total.

The German federation of industry (BDI), the chambers of industry and commerce and the central association of German craft industries all urged that priority should be given to lowering taxes and non-wage labour costs. Mr Hans-Olaf Henkel, the BDI president, said companies needed a genuine net reduction in costs.

The FDP also signalled that it would press within the Bonn coalition for lower taxes and cuts in public expenditure and Germany's generous social welfare system. Mr Wolfgang Gerhardt, the FDP leader, underlined that his party would refuse to support any increase in value-added tax as a way of solving Germany's growing public sector deficits.

Mr Oskar Lafontaine, the SPD leader, said yesterday he saw no reason to change his party's policies in spite of losses in support ranging from 4.3 percentage points in Baden-Württemberg to 6.4 percentage points in Schleswig-Holstein.

Kohl to act on jobs, Page 2
Editorial comment, Page 13

Japanese party ends three-week blockade of parliament

By Gerard Baker in Tokyo

Japan's main opposition party agreed yesterday to end a three-week blockade of parliament, clearing the way for approval of the national budget and a controversial plan to bail out the country's bankrupt housing loan companies.

The agreement followed late-night discussions between Mr Ryutaro Hashimoto, prime minister, Mr Ichiro Ozawa, leader of the main opposition New Frontier party, and leaders of the other two parties in the ruling coalition. It came a day after the government won a convincing victory in a by-election in which the budget deadlock had played centre-stage.

The election had been billed as a crucial test of the government's deeply unpopular plan to spend Y685bn ($6.52bn) bailing out the housing loan companies, or *jusen*, and the NFP had hoped to inflict a damaging defeat.

In the event, the candidate of Mr Hashimoto's ruling Liberal Democratic party, backed by the coalition, won easily, albeit with a much reduced majority. And in spite of the fact that exit polls showed a large majority of voters opposed to the *jusen* bail-out, the government was able to claim victory.

Mr Ozawa told supporters after the meeting that agreement had been reached and it was time to end the three-week sit-in they have staged outside the committee room where the budget debate was due to be held. But he added that the party remained opposed to the government's budget proposals.

The protesters immediately picked up their sleeping bags, food supplies and placards and left in good spirits. But it appears to have been the surprisingly heavy defeat in Sunday's by-election in Gifu prefecture in central Japan that prompted the opposition's change of heart.

The ending of the blockade means a vote can now be held on the bail-out in the lower house of parliament's budget committee. Backed by a substantial

Continued on Page 14
Fuji to write off loans, Page 15

Philips issues profits warning after poor electronics sales

By Ronald van de Krol in Eindhoven and Paul Taylor in London

Philips, Europe's largest producer of consumer electronics, warned yesterday that net profits would fall "substantially" in the first quarter because of poor sales and the slowdown in the computer industry.

The surprise warning was issued by Mr Jan Timmer, company chairman, who blamed a continuing malaise in consumer electronics and a downturn in semiconductor sales – the main motor behind the recovery in Philips' profits in recent years.

Mr Timmer's announcement, delivered to shareholders attending the group's annual meeting, will compound investors' concerns about the state of the consumer electronics market, the maturing consumer personal computer market in some countries, and slower apparent growth in the worldwide semiconductor industry. However Philips, whose shares dropped by 11 per cent yesterday after the profit warning, also faces problems of its own. Analysts believe the company must undertake a further rationalisation of its manufacturing operations if it is to be competitive in world markets.

Mr Timmer said there was no need for "panic", but he declined to give further details of the problems the company faced in the first quarter. He also noted that the same quarter in 1995 had been exceptionally good. Figures for the first three months of 1996 will be published on April 24.

The expected decline will hit net profits from normal business operations, which exclude possible extraordinary gains on divestments or extraordinary losses associated with restructuring.

Mr Timmer, who is due to retire on October 1, said, "We are not happy with the way the first few months of the year have developed." He said markets in Europe and North America for consumer electronics – the group's single largest business in terms of sales – remained weak.

At the same time, lower demand from personal computer manufacturers was "negatively affecting" profits in computer monitors and semiconductors.

Computer manufacturers in North America and Germany have recently warned of a slowdown in growth, and sales over the Christmas period failed to live up to expectations.

Philips' semiconductors and components sector, which includes computer monitors, accounted for 55.2 per cent of operating profits in 1995, a far greater percentage than its 16.6 per cent share of group turnover.

Consumer electronics, by contrast, performed poorly in 1995, due largely to heavy losses posted by Grundig, the group's German operation.

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NEWS: EUROPE

Opposition policies fail to sway electorate □ FDP rises after abandoning traditions

Election setback for Social Democrats

By Judy Dempsey in Berlin

Sunday's election results in three German states were a setback for the opposition Social Democrats (SPD).

They indicated the electorate was neither ready to trust a possible SPD/Green coalition at federal level nor convinced by the policies of Mr Oskar Lafontaine, who took over as party leader last November.

They also showed that the liberal Free Democrats (FDP), the junior partner in the Bonn coalition, had managed to break their cycle of recent electoral defeats with a new strategy – though they were boosted by tactical voting by supporters of Chancellor Helmut Kohl's Christian Democrats (CDU).

In all three states, the FDP promoted itself as the party of low taxation, more deregulation and less bureaucracy, and was re-elected to all three state parliaments. In Baden-Württemberg the FDP leader, Mr Walter Döring, ran an unashamedly pro-business campaign and won 9.6 per cent of the vote.

"This was a clear signal to continue our policies, especially tax cuts to promote employment," said Mr Guido Westerwelle, the FDP's 33-year-old general secretary, who has sharpened the party's ideological and economic profile. The FDP's traditional commitments to civil liberties and individual rights played no role in the campaign. These have been ceded to the Greens.

The Greens, who were elected in the three states and are now represented in 12 of the 16 states, were partly responsible for the SPD's poor showing.

The SPD lost ground in each of the contests, falling by an average of five percentage points. Ms Heide Simonis, the SPD state premier of Schleswig-Holstein, lost her absolute majority and will have to share power with either the Greens or the FDP. She conceded that the recent bickering in the SPD/Green coalition in North-Rhine/Westphalia damaged the SPD. That coalition is considered a litmus test for a future federal Red-Green government.

But her own pragmatic and tough economic policies, involving cuts in public spending to curb the budget deficit, also lost her votes, particularly among women who switched to the Greens and the CDU.

The SPD's populist campaign, calling for restrictions on the number of *Aussiedler* – ethnic Germans from the former Soviet Union who can settle in Germany – and postponing European monetary union, drove voters away from the party in Baden-Württemberg to the FDP and the Greens.

Infas, an institute which specialises in monitoring social trends, argued that the Greens were making inroads into an SPD which is unsure about its future economic and social direction and failing to modernise as its traditional industrial/working class base diminishes.

The SPD is also losing blue collar voters to the CDU. Mr Erwin Teufel, the Baden-Württemberg CDU leader, claimed yesterday that his party won 39 per cent of the working class vote in the state, against 30 per cent for the SPD.

Sunday's results may also show how the middle ground in German politics, once held by the FDP, is being eroded as the FDP moves to the right and the SPD and Greens fight it out for the leftwing vote.

A divided left is grist to Mr Kohl's governing coalition and damaging to the SPD. Ms Kerstin Müller, head of the Green parliamentary group in Bonn, said the SPD's failure during the campaign to support a Red-Green alliance openly as a viable alternative to the Bonn coalition confirmed that the Social Democrats did not know what they stood for.

Ms Heidemarie Wieczorek-Zeul, deputy chairman of the SPD, went further, arguing that the party's recent infighting and weak presentation of its policies had helped boost the Bonn coalition. The SPD, she said, must now "fight the government hard and sharpen its own profile to make clear it is the alternative". That task faces Mr Lafontaine, who has less than two years to turn the party around.

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Sunday's Land elections in Germany

(figures for previous election in brackets)

	Share of vote %		Number of Seats	
Baden-Württemberg				
CDU	41.3	(39.6)	69	(64)
SPD	25.1	(29.4)	39	(46)
Green	12.1	(9.5)	19	(13)
FDP	9.6	(5.9)	14	(8)
Republican	9.1	(10.9)	14	(15)
Rhineland-Palatinate				
SPD	39.8	(44.8)	43	(47)
CDU	38.7	(38.7)	41	(40)
FDP	8.9	(6.9)	10	(7)
Green	6.9	(6.5)	7	(7)
Schleswig-Holstein				
SPD	39.8	(46.2)	33	(45)
CDU	37.2	(33.8)	30	(32)
Green	8.1	(4.97)	6	(0)
FDP	5.7	(5.6)	4	(5)
SSW (Danish minority party)*	2.5	(1.9)	2	(1)
DVU (far right)	4.3	(6.3)	0	(6)

*The SSW is allowed representation in the Kiel Landtag even though its share of the vote was less than 5 per cent. Source: Provisional official returns

"Spring has arrived": FDP leader Wolfgang Gerhardt (second from right) celebrates election results with party candidates Rainer Brüderle (left) and Walter Döring (second from left) and secretary general Guido Westerwelle yesterday Reuter

Polls open way for tough decisions on jobs

Bonn has made only limited headway with its 50-point economic programme, writes Peter Norman

The unexpectedly good result for Germany's liberal Free Democrat party in state elections in Baden-Württemberg, Rhineland-Palatinate and Schleswig-Holstein yesterday raised expectations that Chancellor Helmut Kohl's government in Bonn would at last tackle the country's serious economic problems, symbolised by an unemployment figure of 4.27m.

But if the coalition of Mr Kohl's Christian Democratic Union, its Bavarian Christian Social Union sister party and the FDP is to be truly effective, its representatives in the Bundestag, the lower house of parliament, will have to discover a capacity to take tough decisions that has so far been elusive. The opposition Social Democratic party, which still controls the Bundesrat, the second chamber that represents the states, will also have to be willing to compromise.

It was unclear yesterday whether the votes on Sunday had prepared the way for more decisive government action on the economy. Mr Oskar Lafontaine, the SPD leader, said the SPD majority in the Bundesrat would judge government bills on their merits but would reject plans, such as those to cut unemployment support, that ran counter to SPD policies. A relaxed Mr Kohl pledged to push ahead with the government programme "without more ado", noting that the SPD-governed states in the Bundesrat often voted against wishes of the national party.

Kohl will push ahead 'without more ado'

The Bonn government has so far made only limited progress in implementing its 50-point programme of reforms to boost jobs and restructure the economy that was agreed at the end of January. According to Mr Günter Rexrodt, the economics minister, government decisions are still required before progress can be made on 29 of the 50 points. Nonetheless, he hopes that by the summer these measures will be "on course" for implementation.

The slow progress of government plans to liberalise Germany's restrictive shopping hours highlights the legacy of legislative paralysis that must now be overcome. Coalition leaders agreed on a modest extension in shop opening hours last November but the decision immediately ran into opposition among MPs from Mr Kohl's CDU. Although the cabinet agreed in December on a liberalisation bill, parliamentary discussion of the measure was postponed until after Sunday's elections.

By that time, the government will be facing even greater tests of its capacity to engender change. Among the most important will be a package of tax reforms, designed primarily to ease the burdens faced by companies, that the finance ministry hopes will be given cabinet approval by late May.

Potentially more difficult will be the 1997 federal budget, which will help determine Germany's ability to fulfil the Maastricht criteria for economic and monetary union in the wake of the slowdown this year in economic growth and unexpectedly high unemployment. Mr Kohl made clear last week that difficult spending cuts would have to be agreed by the coalition partners before July 10, when the cabinet is due to agree the draft budget that will be submitted to parliament after the summer.

The tax bill will be complex. It will include provisions to encourage new company start-ups, a revenue-neutral restructuring of corporate taxation, the abolition of wealth tax on companies and a reform of taxes on personal wealth, inheritance and gifts. It must also implement the promised reduction in the solidarity surcharge on income and corporation tax, which helps finance eastern Germany and is scheduled for mid-1997.

The court has ordered changes to wealth tax

The bad news is that some elements, such as the removal of the local trading capital tax, have failed to gain parliamentary approval in the past. More positively, politicians at federal and state level are under pressure to agree changes because of rulings by the federal constitutional court, which has specified that changes must be made to wealth tax by the end of this year. Otherwise it will cease to be legally valid.

The prospect for compromise is not entirely bleak. Even in the pre-election period, there were signs of a possible meeting of minds between Mr Kohl and Mr Lafontaine.

At a press conference in Bonn last week, Mr Kohl avoided direct attacks on Mr Lafontaine and staked out a policy position that had much to appeal to the SPD. He insisted he was not interested in dismantling the German welfare system, despite the need to reduce industry's non-wage labour costs, and took swipes at those among the rich who evaded taxes.

What is important is whether legislative compromise proves compatible with making Germany more competitive and fulfilling Mr Kohl's ambition of halving unemployment by the year 2000.

Stockholm planning to press openness on the EU

By Hugh Carnegy in Stockholm

Sweden is to step up its campaign for greater openness within the European Union by proposing that a right of public access to official documents be written into the EU's ground rules at the intergovernmental conference due to start in Italy on Friday.

"Openness and transparency are central to winning public confidence in the EU," said Ms Laila Freivalds, minister for justice in the Social Democratic government.

Ms Freivalds said Sweden had notified Italy, current holder of the EU presidency, that it wanted the proposal to write the principle of openness into a re-worked Maastricht treaty put on the conference agenda.

She said she expected support from other EU countries – notably Denmark, Finland and the Netherlands. She acknowledged there could be difficulties in putting such a principle into practice. But she noted most countries had publicly supported the idea of giving the public easier access to EU institutions and processes.

"If we do not get support, I don't know how all those countries that have declared themselves in favour of openness will explain themselves," Ms Freivalds said in an interview.

The proposal is that the EU should handle the question of openness and transparency much as Sweden has done. The right of access to official documents is written into the Swedish constitution. Every ministry and public office is required to keep a registry of documents which members of the public can scrutinise.

Everything from minor rules and regulations to letters to the prime minister are included. Exceptions are made for areas which are deemed to require secrecy, such as some aspects of foreign relations. But the principle is that all documents are open unless specifically marked secret – not the other way around.

Ms Freivalds said Sweden fully accepted there was a need for secrecy in some EU processes too. Its proposal would also apply only to EU institutions and was not an attempt to impose new rules on individual countries.

"Today it is often the case that classified documents circulate among certain interested parties in Brussels, creating a situation where some may have information to the detriment of others," the minister said.

"This creates a picture of a closed, exclusive world where ordinary people feel shut outside the system. If there is no public confidence, it damages the democratic functioning of the institutions. Information is vital for people to be able to make decisions and understand decisions."

Italian parties compete to offer tax reforms

By Andrew Hill in Milan

Mr Silvio Berlusconi, leader of Italy's rightwing electoral alliance, and Mr Romano Prodi, his centre-left counterpart, yesterday vied for the support of shopkeepers and the self-employed by promising reform of Italy's tangled tax system.

But in their first face-to-face meeting of the campaign for the April 21 election, both leaders also conceded that Italy, burdened with debt, would not be able to join a European single currency unless the economic conditions for entry were interpreted flexibly.

The contradiction between a vote-winning promise to cut or reform taxes, and the need to clean up Italy's public finances is turning into one of the central issues of the election campaign.

Yesterday Italian shopkeepers and other self-employed workers – mainly Berlusconi supporters – protested against the tax burden by closing shops, bars and restaurants for two hours while the two leaders debated tax policy in front of more than 1,000 members of their industry federation, Confcommercio.

The right has stolen a march on Mr Prodi's centre-left "Olive Tree" alliance by promising to abolish the 12.5 per cent tax on treasury bills, the most popular form of family savings in Italy.

Yesterday, Mr Berlusconi claimed that tax incentives introduced by his short-lived government in 1994 helped create 50,000 companies last year. If voters elected the rightwing Freedom Alliance for a solid five-year term, he said, similar measures could halve Italy's unemployment rate to 6 per cent.

Mr Prodi, repeatedly barracked by the audience, said the media magnate had run down the Italian economy, and lost the confidence of international investors during his seven months in office. He said jobs were "created by a healthy economy" and the right's attempt to "de-tax every aspect of the economy would have a disastrous effect on public finances".

Neither a Prodi nor a Berlusconi government would have much room for manoeuvre on fiscal policy. Italy's budget deficit is due to fall to 5.9 per cent of gross domestic product this year, well outside the conditions under the Maastricht treaty for entry into monetary union.

Mr Berlusconi said yesterday Italy, which holds the presidency of the European Union until July, should lobby other governments for a flexible interpretation of the Maastricht criteria.

Mr Prodi said Italy could not act alone in postponing monetary union, but he believed other countries would also call for more time or more flexibility before the Emu deadline of 1999.

Yeltsin suggests compromise on Nato expansion

By John Thornhill in Moscow

Russia's President Boris Yeltsin yesterday held out the possibility of a compromise solution to the vexed issue of Nato expansion, suggesting former Warsaw pact countries could join the alliance's political committee without being integrated into its military structures.

"I would propose they follow the French example – that is, to join the committee but not Nato," he said.

Mr Yeltsin, who arrived in Oslo yesterday for a two-day visit to Norway, has been fiercely opposed to Nato's plans to expand eastwards, warning the move might "fan the flames of war across Europe".

But in recent weeks Russia appears to have softened its stance, stressing it wants a compromise. Earlier this month, Mr Yevgeny Primakov, the hawkish foreign minister, hinted Moscow would not object to central European countries joining Nato as long as integrated military units did not move closer to Russia's borders.

The issue has been given added urgency by Belarus's recent moves to form a closer union with Russia. On Saturday, President Alexander Lukashenko of Belarus said he would sign a treaty on April 2 re-unifying the two Slavic states.

Any such reunification raises the possibility that Russian troops in Belarus might one day directly confront Nato forces across the border in neighbouring Poland, significantly raising tensions in the region.

But before leaving for Oslo, Mr Yeltsin played down suggestions of an imminent merger with Belarus to create a single state. "Somebody has got things mixed up," Mr Yeltsin said.

Last week, Mr Warren Christopher, US secretary of state, met Mr Yeltsin in Moscow and said Nato would press on with its plans to embrace central European countries such as Poland, Hungary and the Czech Republic in spite of Russian objections.

● In Brussels, Bulgarian President Zhelyu Zhelev said a recent vote by the Russian parliament calling for the nullification of the 1991 break-up of the Soviet Union would strengthen Bulgarian determination to join Nato.

● Mr Mintimer Shaimiev, president of the central Russian republic of Tatarstan and one of the country's most powerful regional leaders, has been re-elected unopposed. Mr Shaimiev, who has won a large degree of economic independence for the oil-rich republic, received 97.2 per cent of the vote on a 78 per cent turn-out.

Minister hits at plan for oil and gas tax rises

By John Thornhill

Russia's energy minister yesterday strongly criticised government proposals to increase tax revenues from the oil and gas sector, saying they would deter investment and undermine attempts to stabilise energy output this year.

The proposals, one of the central conditions of a \$10.2bn loan agreement with the International Monetary Fund, are seen as a vital means of raising much-needed budget revenue. The IMF board is due to consider approval of the loan today.

"The IMF considers it necessary to raise taxes on oil, oil products, gas and electric energy. If you talk about the macro-economic indicators in the economy then I think this is correct," Mr Yuri Shafranik said in an interview.

"But if you talk about the perspectives and development of the internal market in Russia then this is probably a very serious mistake."

Mr Shafranik said he would make the ministry's views known through a special commission which is conducting talks with the IMF about how to implement its budget plans.

The taxation of Russia's biggest energy companies is developing into a trial of strength between the economics and finance ministries, desperate to raise additional budget revenues, and the energy ministry, which believes higher taxes will seriously harm the chief income-generating sector of the economy.

Reformist economists have particularly targeted Gazprom, the biggest gas producer in the world, claiming it fails to pay its fair share of taxes. The issue has particular political sensitivities, given Gazprom's connections with Mr Victor Chernomyrdin, the prime minister and former head of the giant gas concern.

The IMF has repeatedly pressed the Russian government to raise additional revenues from Gazprom by removing wide-ranging tax exemptions from its "stabilisation fund" but has so far met with little success. The fund, believed to contain several billion US dollars, is ostensibly used for financing investment projects and social welfare.

Some Russian ministers are pressing the IMF to adopt a more aggressive stance this year. "It will be ridiculous if Gazprom retains its exemptions," said one government official. "This would show that the IMF is not an effective economic policy tool but only a political organisation."

Both Russian and western oil companies argue the country's tax regime needs a radical overhaul before they are prepared to invest in big development projects.

Belgium heads for Emu goal

By Neil Buckley in Brussels

Mr Jean-Luc Dehaene, Belgium's prime minister, yesterday insisted Belgium would meet its target of a budget deficit of 3 per cent of GDP this year, putting it firmly on track to be among the first countries to replace their currency with the euro.

Mr Dehaene's declaration came only two days after he had hinted at a meeting of his Christian Democrat party that the target might not be met until 1997, and goes against the private views of finance ministry officials that slowing growth will make it hard to reach the target this year.

Belgium must reduce the deficit ratio to 3 per cent by next year to meet the convergence criteria for monetary union.

"For the first time since the early '70s my country once more will reach the 3 per cent public deficit level," Mr Dehaene told a seminar on Belgian financial markets at the Belgian National Bank.

Belgium's 1996 budget was based on a 2.2 per cent annual growth forecast, but the forecast has already been revised to 1.6 per cent and many economists believe the new figure is optimistic. But, speaking at the same seminar, Mr Philippe Maystadt, finance minister, and Mr Alfons Verplaetse, the national bank governor, echoed Mr Dehaene's confidence that Belgium would be among the first countries to proceed to full monetary union.

Mr Dehaene added he hoped to agree an "employment contract for the future" with employers and trade unions, aimed at halving Belgium's unemployment rate after the year 2000. That would require keeping the increase in labour costs at or below the average of Belgium's neighbouring countries, when a three-year wage freeze expires at the end of this year – and Mr Dehaene added Belgium might have to make an "extra effort" in the early stages.

The plan also included increasing employers' flexibility by lowering their social costs, and encouraging re-training and part-time work.

Ministers find role for MEPs

EU foreign ministers yesterday settled a dispute over the European Parliament's role in the coming inter-governmental conference on Europe's future, Lionel Barber writes from Brussels. The deal reached in Brussels overcomes French and British objections and paves the way for a smooth summit of EU leaders on Friday in Turin. The Turin summit will serve as a ceremonial launch for the IGC, set to last at least 15 months.

Italy, which holds the EU presidency, put forward a compromise which will allow representatives of the Parliament to be briefed regularly on the constitutional talks without participating in them or assuming a fully-fledged observer role.

New shapes in the stars, Page 13

EU blocks Bosnia aid conference

The European Union decided yesterday it could not yet give the go-ahead to next month's Bosnia donor conference because all prisoners had not been released as required by the Dayton peace agreement, Agencies report from Brussels.

International aid donors met in Brussels in December and came up with pledges for more than \$500m to help start rebuilding Bosnia. A second conference has been pencilled in for April 12 and 13 with a target of collecting \$1.2bn more in promises of aid to cover the rest of this year.

"What is required is not partial and conditional compliance with the peace agreement, but total and unconditional compliance." Mr Carl Bildt, the high representative for civilian affairs in Bosnia, told a news conference, noting that under the Dayton peace agreement all prisoners of war should have been released by January 19.

"We have seen some progress but I am still not satisfied with the progress. As long as that remains the case we cannot go forward with planning for the donors' conference," he said.

Sixty thousand troops led by Nato have been enforcing the peace agreement in Bosnia since December, but reconstruction efforts have not yet got into full swing.

Mr Bildt briefed a meeting of EU foreign ministers about current conditions in Bosnia. He said efforts to win the release of all prisoners had met with some success following last week's meeting of the five-nation contact group in Moscow – involving the US, France, Germany, the UK and Russia.

"I naturally welcome this," he said.

But he argued that without the release of all prisoners, it was likely that arbitrary arrests in Bosnia would continue and there would be no chance of achieving real freedom of movement and the return of refugees, which he said were crucial to the peace process. "Eager as we are to fund reintegration and reconciliation we are unwilling to fund reluctance or refusal to implement the peace agreement," he said.

"The international community can provide the framework for reconciliation to take place. But only the parties themselves can make reconciliation a reality."

Diplomats say so far between \$823m and \$923m has been pledged, with the EU making some \$213m available, the US \$200m and Japan \$200m. Islamic countries are expected to come up with about \$100m and the World Bank has pledged \$160m.

EUROPEAN NEWS DIGEST

Paris reduces growth forecast

The French government has reduced its forecast of economic growth for this year to 1.3 per cent, down sharply from the 2.8 per cent predicted in the 1996 budget last year, the economics ministry announced yesterday. But it forecast 2.8 per cent economic growth next year.

The ministry said its forecasts of budget deficits in meeting monetary union criteria remained at 4 per cent of GDP for 1996 and 3 per cent for 1997. Non-farm employment would rise by only 15,000 this year, the ministry said, against the 290,000 expected, and would be up by 215,000 next year. For 1996, household consumption would rise by 1.3 per cent, and business investment by 4.3 per cent (against 8 per cent predicted). The 1996 trade surplus is now put at FFr123bn ($24.3bn) instead of FFr93bn.

The government is now looking for 2.8 per cent economic growth in 1997, and a trade surplus of FFr131bn. *AFP, Paris*

Swedish drink tax cuts urged

The head of Sweden's state-owned alcohol producer yesterday called for a cut in the country's high taxes on spirits, saying the government risked losing control over consumption because of rising smuggling, illegal production and duty free imports. Mr Egon Jacobsson, chief executive of Vin & Sprit, said Sweden's entry to the European Union meant there must be changes in traditional policies to limit alcohol consumption.

Taxes on spirits such as vodka, whisky and aquavit, the powerful Scandinavian specialty, account for 90 per cent of the price in Sweden, the highest within the EU. "The question is how much longer this can function," Mr Jacobsson said. Smuggling and illegal production now accounted for consumption of some 15m litres a year – half the amount sold through the state-run monopoly. *Hugh Carnegy, Stockholm*

● Sweden had a trade surplus of SKr9.5bn ($1.44bn) in February, compared with SKr8.3bn in January.

Swiss outlook 'worrying'

Swiss finance minister Mr Kaspar Villiger yesterday described as "extremely worrying" the latest budget forecast by the Swiss government, which projects increasing deficits over the next three years.

In its budget outlook for the next four years, the finance ministry said the federal deficit was to rise to SFr4.1bn ($3.4bn) in 1996, SFr7.1bn in 1997, and SFr8.6bn in 1998, before easing to SFr8.1bn in 1999. The 1995 deficit is forecast to be SFr3.3bn.

Mr Villiger said that restructuring of the government's finances would be a priority. The government had set the target of achieving a balanced budget by 2001, and restructuring measures would include 2,000 job cuts in the federal administration. *AFX, Geneva*

Hungary gets OECD invitation

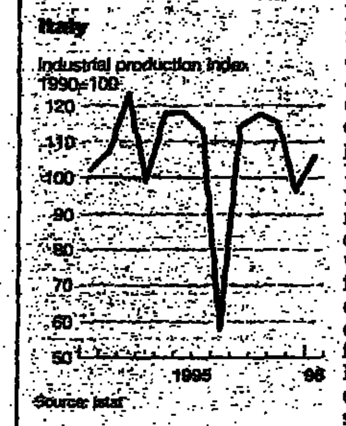
Hungary will be formally invited on Friday to join the Organisation for Economic Co-operation and Development (OECD) as its 27th member, it was announced in Paris yesterday.

An agreement setting out the terms for Hungary's entry will be signed during a ceremony at the organisation's Paris headquarters by Mr Imre Dunai, Hungarian trade and industry minister, and Mr Jean-Claude Paye, the OECD secretary-general.

The formal invitation means that Hungary will be able to attend all OECD meetings, including those of the OECD council, as an observer from Friday. It will become a full member when it deposits its instrument of accession to the OECD Convention with the French foreign ministry, presumably within the next month or so. *AFP, Paris*

ECONOMIC WATCH

Italy's industrial output rises



Italian industrial production rose by 3.9 per cent in January, compared with January 1995, but average daily output slipped by 4.8 per cent, compared with the previous month. The January 1996 figures, published yesterday by Istat, the national statistics office, were calculated on output over 22 working days, whereas those for January 1995 were based on production over only 21 days. In December output had fallen 2.8 per cent from December 1994, the first decline on this basis for several months. The strongest growth in output came in office equipment, up 19.3 per cent against January 1995, and in machinery and mechanical equipment, up 18.9 per cent. By contrast, output of newspapers, books and magazines slipped by 8.4 per cent, and production of radio, television and telecoms equipment by 5.1 per cent. *Andrew Hill, Milan*

■ Salary rises agreed for more than 2m Spanish workers in 1996 have risen by an average of 3.9 per cent, up from 3.7 per cent a year earlier, according to a report in El País. The rises are in line with the government's inflation target of 3.5 per cent for 1996.

France to reduce border controls

By David Buchan in Paris

France is to lift controls on its borders with Spain and Germany, two fellow members of the European Union's Schengen agreement on open borders.

But the move, ahead of Friday's Turin summit opening the intergovernmental conference (IGC) on the future of the EU, did not encompass Belgium and Luxembourg, which have open borders with the Netherlands. France has been critical of Dutch drugs policies.

In the run-up to Turin, President Jacques Chirac yesterday called on his EU partners to establish "a European social model" more relevant to Europeans' daily preoccupations, ranging from job creation to fighting illegal drugs. His social initiative is to be spelt out in a memorandum to be approved tomorrow by the French cabinet and presented to the summit.

In an article in the leftwing Libération newspaper, Mr Chirac said Europe needed not only to revamp its institutions and to put monetary union in place, but also to give itself a big political project to revive citizens' hopes and win their support.

The Gaullist president called for European action to promote jobs by better use of EU funds and by cross-border infrastructure schemes. He also wanted to stop "social dumping" – the lowering of labour conditions and pay – from undermining work and welfare rights.

This is partly to deflect domestic criticism, renewed in recent days by Mr Philippe Séguin, Eurosceptic president of the National Assembly, that the French government is not doing enough to tackle the country's 11.8 per cent unemployment. It also partly reflects France's desire to use the IGC to end the right to opt out of EU social policy won by the UK at Maastricht.

Mr Chirac also called for increased EU co-operation on drugs. Drugs "is an area where nothing can be done efficiently without Europe", he said. Clearly referring to the more tolerant Dutch attitude to drug users, Mr Chirac complained: "It just needs one single country with lax legislation to weaken all our action."

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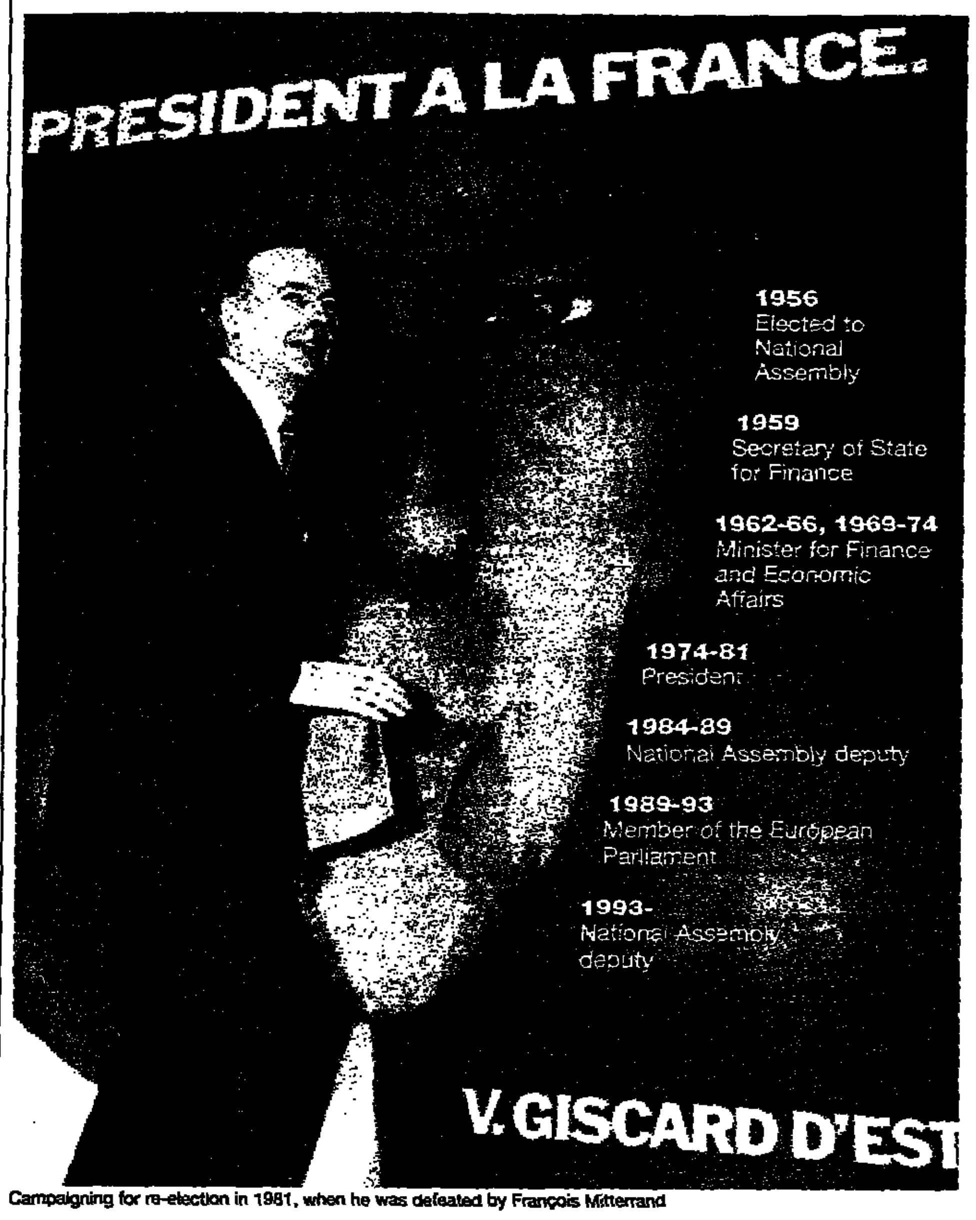
Ex-president refrains from endorsement of any candidate in leadership poll

Giscard bows out as UDF leader



Campaigning for re-election in 1981, when he was defeated by François Mitterrand

By David Buchan in Paris

Mr Valéry Giscard d'Estaing, the former French president, last night bowed out as leader of the Union pour La Democratie Française (UDF), junior partner in the ruling coalition.

A convention of some 1,800 delegates in Lyons on Sunday is due to elect a new UDF president from among three former ministers – Mr François Léotard, Mr Alain Madelin and Mr André Rossinot.

In a television interview last night Mr Giscard d'Estaing, refrained from publicly endorsing any of these candidates to head the UDF federation which he formed in 1978. However he is known to favour Mr Madelin, the strongest challenger to the frontrunner, Mr Léotard.

The outcome could affect the balance of power and even stability of the government and of its parliamentary majority.

The main Léotard-Madelin battle has perpetuated the split in the UDF caused by last year's presidential election. Mr Léotard is leading the camp that backed former prime minister Edouard Balladur for the Elysée, while Mr Madelin is championed by those, including Mr Giscard d'Estaing, who eventually opted for President Chirac.

Mr Giscard d'Estaing left it characteristically late to rule himself definitively out of the UDF contest, in spite of the consensus that the federation needed new blood to replace the 70-year-old leader.

Voted out of the presidency in 1981 aged only 55, Mr Giscard d'Estaing clawed his way back up the political ladder, first as a local councillor in his native Auvergne – he is still president of the regional council – then as an MEP and a deputy of the National Assembly, where he is still president of the foreign affairs committee. But last year he narrowly failed to displace the socialist mayor of Clermont-Ferrand, the capital of Auvergne.

The war of succession is also in large part over whether a new leader can manage to remedy Mr Giscard d'Estaing's failure to turn the UDF into a more centralised formation to rival the Gaullist movement, refounded as the RPR by Mr Chirac in 1976.

Though it has a small "direct" membership, the UDF is mainly composed of the conservative Republican party, from which Mr Léotard and Mr Madelin both spring, centrists who now call themselves Force Democrate, and the Radical party which is fielding Mr Rossinot as a candidate.

More of an electoral alliance than a party, the UDF, whose members range from Thatcherites such as Mr Madelin to German-style Christian Democrats, share little ideology in common, apart from a belief in Europe and the merits of regional decentralisation which mark them out from the Gaullists. All three candidates recognise the need for a more coherent UDF, but differ on the pace of reform.

Mr Madelin calls for the UDF to fight the 1998 parliamentary elections as a centralised party, an ambition that has earned the support of Mr Giscard d'Estaing. In addition, Mr Giscard d'Estaing has long had a stormy relationship with Mr Léotard. The latter, partly because he also heads the Republican party, wants more gradual change, leaving the UDF as a federation, while Mr Rossinot's reform timetable lies between the two.

NEWS: THE AMERICAS

Dole and the mountain lion going west

Jurek Martin finds the Californian primary vote today outshone by movieland's Oscars

US ELECTIONS November 5

It is an open question whether today's California primary election is more important for Senator Bob Dole or the state's native mountain lion, better known as the cougar. The Senate majority leader will surely win the Republican presidential ballot, taking the state's 165 delegates to the party convention and thus passing the 996 total needed to secure the party's nomination. The Los Angeles Times opinion poll last week had him ahead of Mr Pat Buchanan, his remaining challenger, by 52:18 per cent.

In past elections, Mr Dole has been known to turn nasty – also the cougar's problem. Classified as a protected species in a 1991 Californian ballot initiative, it has since taken to attacking joggers and other animals. So, the National Rifle Association has helped put a proposition on today's ballot that would let hunting of it resume.

This proposal, along with three others which seek to control the power of trial lawyers in the state, has generated more immediate passion than the Republican contest. But the party primary cannot be overlooked for the simple reason that the largest US state may matter more than any other in the presidential election on November 5.

Conventional wisdom says that Mr Dole can lose California then but still become president, while President Bill Clinton must carry the state to stay in the White House. This is the result of changes since 1992, with the Republicans now more entrenched in the south and much more competitive in the industrial midwest.

But, in this century, no Republican has ever become president while losing California, but three Democrats (Wilson, Kennedy and Carter) have lost the state but won the presidency.

Mr Dole was looking more to history than conventional wisdom on Sunday, his last day of campaigning in the state, when he told a rally that he had no intention of writing off California, as President George Bush had done in 1992.

Among the faithful: Senator Dole speaking at the Richard M. Nixon Library in California Picture: AP

Acknowledging state polls that have him trailing Mr Clinton by as much as 20 points, he declared: "We're going to fight to the bitter end." He adduced in evidence Governor Pete Wilson, his campaign manager here, whose landslide re-election in 1994 came only months after similar polls had him more than 20 points behind his Democratic rival.

Like Mr Wilson, who recovered via his support for ballot Proposition 187 to deny social services to illegal immigrants, Mr Dole has chosen sides in a hot local issue. This is the California Civil Rights initiative, likely to be on the ballot in November. This is meant to end government-sponsored affirmative action programmes throughout the state.

Also, Mr Dole continued to urge Mr Buchanan, the conservative commentator, to "join forces and close ranks" for the general election. He also virtually begged Mr Ross Perot, the 1992 independent candidate, not to enter the race and "make it easier for Bill Clinton". Mr Buchanan responded by threatening again to quit the Republican party if its platform did not please his pro-life, blue-collar supporters.

The president has his own potential third-party problem in California. Mr Ralph Nader, veteran consumer activist, is the likely presidential nominee of the Green party. He could easily win, mostly from Mr Clinton, 5-10 per cent of the vote in November. Mr Nader has said it was immaterial that his participation could hand the election to the Republicans because Mr Clinton was in thrall to big business.

California's newest big business, the computer industry, is the main mover behind the three propositions aimed at curbing the influence and income of the legal profession. The first, likely to fail, would establish no-fault car insurance statewide, thereby reducing the prevalence of damage lawsuits.

The other two, with better chances, would establish the loser-pays principle in securities lawsuits and sharply limit the contingency fees lawyers receive from pursuing legal actions. The aim of both is to discourage "frivolous" suits, which the computer industry now sees as a threat to capital creation.

All three borrow, to a degree, from the wide-ranging tort reform proposals of the Contract with America, the Republican manifesto in the 1994 congressional election. These have been whittled down in Congress to narrower securities litigation and product liability bills, but a California vote in their favour could revive the national effort.

Even so, this matter has not raised the level of public interest in the primary beyond the lukewarm and voter turnout is expected to be near a record low. This would disappoint California officials who moved the primary forward from June in the hope of national attention to the state.

In fact, California received attention with a vengeance last night – but neither Bob Dole nor the cougar could conceivably compete with the film world's Oscar ceremony.

AMERICAN NEWS DIGEST

No turning back, insists Menem

President Carlos Menem denied yesterday that Argentina was in danger of returning to the interventionist polices of the past, or of implementing "magical and demagogic" measures to confront recession and high unemployment.

Addressing investor concerns that the recent formation of a Labour and Employment Council meant his administration was seeking an accommodation with unions, Mr Menem told bankers at the Inter-American Development Bank's annual meeting that deeper labour reforms were essential. "We need modern, flexible legislation that not only does not frighten off entrepreneurs but gives them incentives to create jobs."

Political pressure is building within Argentina to modify economic policies which some blame for an unemployment rate of 16.3 per cent and continued recession. Mr Domingo Cavallo, economy minister, on Sunday admitted that gross domestic product had contracted by 4.4 per cent last year, worse than the grimmest predictions.

Mr Menem said the "alarming number of unemployed" in Argentina was "taking a terrible toll on our people". Policy efforts should be concentrated on reducing the costs by small and medium-sized companies, which created the majority of jobs. *David Pilling, Buenos Aires*

Nicotine nasal spray for sale

The US Food and Drug Administration has approved a nicotine nasal spray to help hardcore smokers quit.

The spray is a pump bottle holding 100mg of nicotine that smokers can inhale to ward off cigarette cravings. Pharmacia-and-Upjohn created the spray but have licensed it to McNeil Pharmaceuticals for sale under the name Nicotrol NS.

Smokers can already request medical prescriptions for nicotine patches or, from next month, buy nicotine gum without a prescription to help them kick the habit.

But the nasal spray is much more powerful, reaching the bloodstream more quickly than either gum or patch. Scientists last year warned the FDA that it should only be sold with strong warnings that it could be abused. *AP, Washington*

Internet share trades to resume

Spring Street Brewing, a small Manhattan-based brewing company, expects to resume trading its shares over the Internet in about two weeks after it responds to the concerns of US regulators. Last Wednesday the company halted a two-day-old experiment in Internet share trading after the Securities and Exchange Commission asked for a review of the trading scheme by regulators.

SEC officials said their primary concerns were that investors would not be sufficiently aware of, or adequately protected against, the risks of holding Internet-traded shares.

They suggested that the company should use an independent transfer agent rather than clear the trades itself. *Lisa Bransten, New York*

Home sales soar in US

US sales of existing homes rose strongly in February despite higher mortgage rates, the National Association of Realtors said yesterday as the housing industry shook off the impact of bad weather.

Total sales of existing homes climbed 6.5 per cent to a seasonally adjusted annual rate of 3.96m, following a revised January decline of 3.9 per cent to 3.72m. The rebound was significantly stronger than Wall Street forecasts last month of an annual rate of 3.82m. *Reuter, Washington*

IMF urged to do more in monitoring banking

By Stephen Fidler in Buenos Aires

The International Monetary Fund must assume a more assertive role in monitoring banking systems, to help avoid such destabilising banking crises as those experienced in Latin America over the last two years, according to Mr Lawrence Summers, US Treasury under-secretary.

He said financial systems were "an area where the IMF has to take on a larger role in the future". The joke that the IMF stands for "It's Mostly Fiscal" – reflecting its historical focus on budgetary matters – should no longer be applicable, he said.

Crises in the banking systems of Argentina, Mexico and Venezuela, and costly bank bail-outs in Brazil, have raised concerns that weak financial systems may be one of the most important Achilles heels of the region's economic reforms.

Mr Summers told the FT in Buenos Aires, where he was at the annual meeting of the Inter-American Development Bank, that the region's banking systems would be high on the agenda of a meeting of western hemisphere finance ministers in New Orleans on May 17-18. This would aim to improve co-operation among bank regulators and enhance international support so as to improve the monitoring of banks. Mexican regulators were already co-operating "closely but informally" with their counterparts in the US, he noted.

Asked about the avoidance of future Mexico-style crises, he said an agreement among governments about the expansion of the general arrangements to borrow was possible in the next few months. It would build on the existing GAB – emergency credit facilities set up in 1962 by major IMF members as an addition to the Fund's normal resources – but probably include new members.

Furthermore, the US economy was in better shape "than at any time since John Kennedy was president [in the early 1960s]", thereby reducing the likelihood of sharp swings in US interest rates that could affect Latin American economies.

Also, Mr Summers said general surveillance by the IMF of risks to the global financial system had improved, investors now know "the right questions" and governments believe that they have to be more transparent in releasing economic statistics.

He said another prominent issue at the meeting in New Orleans – the first of finance ministers under procedures established by the Miami summit of the Americas in December 1994 – would be on money-laundering. "There is a sense of co-operation region-wide that was not there several years ago and a consensus that money-laundering constitutes a nexus for narcotics-related problems."

There was agreement on the need for action, and "we are past the stage of pretty phrases."

On other issues, Mr Summers said:

- The US Treasury had made a profit from its lending to Mexico, having received $750m of interest at higher rates than the US cost of borrowing.
- The IADB should allow members greater facility to borrow in dollars. Apart from loans under a pilot programme to provide up to $1bn in dollar loans, which began in May 1994, members have to borrow in a basket of currencies. An expanded dollar window would give countries the currency they often want. It would also have implications for the bank's borrowing programme, requiring it to raise more of its funding through the US dollar bond market.
- Various Caribbean countries are likely to be early beneficiaries of a $10m debt-reduction allocation by the US Congress. This will allow leverage for greater debt forgiveness by using debt swaps at discounts to face value.

NEWS: INTERNATIONAL

Nigeria budget: late but worth waiting for

There is a dark side, of course, writes **Paul Adams**, but there is something for the bright side

Name a country in Africa, asked a London-based analyst recently, that has a surplus on merchandise trade and current account, a freely traded currency, a stable government and where many multinationals are investing in their local subsidiaries.

The answer is Nigeria.

The dark side of this glittering coin is high crime, a ramshackle infrastructure, endemic corruption, and a soaring external debt – but the point is made. Africa's most populous nation, pumping out more than 2m barrels of oil a day, and with huge reserves, remains a substantial business opportunity.

And the 1996 budget, presented by the leader of the military regime, General Sani Abacha, was designed to make it even more enticing for would-be investors prepared to take rough with smooth.

Nigerian budgets have long been complex documents, opaque and contradictory, and this year's exercise has proved no exception.

Usually delivered on January 1, it came out nearly two months late, but the private sector took the delay in its stride.

Nigeria's economic managers continue to be divided between those who argue that, like it or not, the country must return to the doctrine of the World Bank and International Monetary Fund and those who support a form of go-it-alone economic nationalism.

Reach agreement with the Bank and the Fund, say the former, and rescheduling of the country's $31bn external debt can get under way.

The economic nationalists, however, are far from convinced of the benefits: debt servicing will still not fall below 25-30 per cent of export earnings, and policy will, as they see it, be shaped by outsiders.

In spite of this ideological tug-of-war and the distractions associated with yet another attempt to return the country to civilian rule, four main themes emerge from a budget that deserves close analysis.

The Abacha government is attempting to revive a battered infrastructure and improve social services, curb inflation, improve investment incentives and gradually reduce the role of the state.

Supporting the first objective is the N30bn ($335m) which Nigeria's military regime is starting to release from its special petroleum trust, funded through the increase in domestic fuel prices last year. It is to be used for road repairs and basic medicines.

Meanwhile, in its battle to reduce inflation, the government hopes to keep a tight squeeze on money supply, and in the process stabilise the naira.

At the same time, however, it wants to stimulate growth and ease the suffering caused by a deep recession.

NIGERIAN EXTERNAL DEBT				
Category	Amount ($bn)	Arrears ($bn)	Total ($bn)	% of Total
Multilateral	4.4	0.042	4.4	13.5
Paris Club	11.4	10.29	21.7	66.5
London Club	2.0	none	2.0	6.3
Promissory Notes	3.1	none	3.1	9.7
Non-Paris Bilateral	0.3	0.947	1.3	4.0
TOTAL	21.3	11.279	32.584	

DEBT SERVICE REQUIREMENT FOR 1996	
Category	Amount ($bn)
Multilateral	0.817
Paris Club	3.761
London Club	0.128
Promissory Note	0.254
Non Paris Club	0.311
TOTAL	5.271*

*Of this Nigeria will pay only $2bn this year, adding a further $3.2bn to its debt service arrears by end 1996

The Nigerian government is not alone in wondering how this circle might be squared. Adding to its dilemma is the fact that large scale disbursements from the petroleum fund would risk starting a fresh round of inflation, which has been falling steadily for about nine months.

It would also lead to renewed pressure on the naira, which has held its value at about N82 to the dollar for more than a year.

What makes the task more difficult – indeed, some would say impossible – is the government's interest rate policy. Rather than allow the market to decide the rate, it has kept a 21 per cent cap on interest rates while inflation is estimated to be near 50 per cent.

Last year, nearly all banks used hidden charges to get around the official limit and charge real rates of about 35 per cent.

Mr Anthony Ani, the finance minister, seems determined to put a stop to that, warning in his budget briefing that he will penalise any banks caught doing this.

The explanation for the government's apparent determination to pursue an illogical policy lies in the cost of servicing domestic debt, currently around N350bn, about 10 per cent of GDP.

A bank economist in Lagos says: "The cost of servicing this domestic debt is a major burden on the future generations and is probably the key reason why the government cannot afford to move the cap on interest rates, and thus continues to tax the savers in this economy."

Although the N17bn budget surplus for this year implies tough fiscal discipline, economists are sceptical.

It is far from certain that the government can resist the temptation to spend two bonanzas: the petroleum trust fund, which holds at least N30bn and the proceeds from the sale of government petrodollars at the market rate rather than the controlled rate of N22. Total benefit: N102bn.

True, greater fiscal control helped to reduce the budget deficit from about N80bn or 8 per cent of GDP in 1994, to a declared N1bn budget surplus for 1995, assisted by about $1bn from higher than forecast prices for oil, the overwhelming source of government income and foreign earnings.

But this was also achieved partly at the expense of starving vital services and infrastructure of necessary investment.

Nonetheless, Nigeria's private sector is grateful for small – and in some cases, not so small – mercies. Exchange rate stability is one: "The important thing is that they gave us a chance to stand still," says one of Nigeria's leading bankers. "That sounds cynical but they could have gone backwards."

At the same time, the budget offered reduced taxation rates and valuable tax breaks for big companies that replace plant and equipment, on top of the repeal last year of exchange and investment controls.

That said, political stability remains the critical unknown. As one businessman put it: "In Nigeria, the risks are like the potential returns: considerable."

S Africa insurer offers cover for HIV infection

By Mark Ashurst in Johannesburg

The world's first commercial life cover for people infected with the HIV virus has been introduced in South Africa by insurance group Metropolitan Life. At least 1.5m South Africans are infected with the HIV virus, though 80 per cent have not developed symptoms of Aids. The number of policy applicants testing positive for the virus last year was 2 per cent.

Mr Riann Van Dyk, Metlife's general manager and marketing actuary, said South Africa was a "natural" pioneer of insurance for people with HIV and other previously uninsurable diseases because its financial services sector was the best developed of countries facing an Aids epidemic.

Ms Morna Cornell, of the South African Aids Consortium, which lobbies on behalf of people with Aids and which worked closely with Metlife, attributed development of the policy to the combination of an epidemic and public pressure on insurance companies.

"It's not an answer for everyone, but we hope that in five years' time, when we have good data, wider cover will be available," she said.

But industry experts cautioned that the flattening in the rate of HIV infection in developed countries could deter insurers in the west from developing similar schemes.

The policy took four years to develop, due largely to concerns over confidentiality and allegations that insurance companies had blacklisted suspected homosexuals.

Cover is restricted to persons aged 15-55 in the asymptomatic stages of HIV infection, defined by the World Bank as stages 1 or 2, when life expectancy is longest. The maximum death benefit is limited to R50,000 ($12,800).

Monthly premiums start at R125 for R10,000 life cover, compared with an average monthly premium of R110 for other Metlife policies with assurance up to R400,000. The investment value of the policy is designed to exceed the value of the life cover after six to nine years.

Labour body sees room for growth without reigniting inflation

ILO calls for G7 expansion plan

By Robert Taylor, Employment Editor

The world's main industrial countries should co-ordinate a strategy of economic expansion to raise demand and promote job-intensive growth, the International Labour Organisation says in a submission to the governments at the Group of Seven conference to be held in Lille, France, next week.

The gathering is a follow-up to the jobs summit in Detroit two years ago. The Geneva-based ILO believes "there is room for macroeconomic expansion without necessarily creating an upsurge of inflationary pressures in the current context of low inflation, insufficiency of productive investment and a persistent backlog of unemployment".

The organisation calls for:

- A "joint reduction by governments of real short-term interest rates".
- "Budgetary policies which allow for expenditures to combat unemployment".
- "A declared and consistent action towards a gradual reduction of the public debt in the medium-term".
- Joint efforts by governments, employers and trade unions to maintain "stability between wage increases and profits".
- The introduction of targeted training programmes for the long-term unemployed through a reform of tax benefit systems to improve incentives for people to take jobs, and cuts in taxes on employment that pays at or near an effective minimum wage.
- Integration of education and vocational training with the world of work through a strengthening of partnerships between business and public providers.

The ILO believes global unemployment is due to "slow and inadequate economic growth" and not technological change or international trade. Its submission says technology is "not a net job destroyer but a locomotive of future growth and job creation", while "trade with low-wage countries cannot be regarded as the major cause of either the high unemployment of low-skilled workers or the deterioration of their wages".

The document also argues that real wage levels and social protection measures are not substantial causes of high unemployment either. "Structural policies intended to promote greater efficiency and flexibility may have brought about a more efficient allocation of resources but they have had little effect on aggregate employment levels," it says.

Labour market deregulation is criticised on the grounds that while it may have "contributed to economic efficiency" it has also "widened the gap between winners and losers and aggravated the gap between the insiders and outsiders".

Museveni: target missed

Good harvest helps Uganda trim inflation in February

Inflation fell in Uganda last month to 5.8 per cent on an annual basis from 8.6 per cent in January, the central bank said yesterday, Reuter reports from Kampala.

It credited the decline to lower food prices, spurred by a big harvest, also citing falling commodity prices, pushed down by a drop in fuel prices.

"Major decreases were registered in the prices of fresh food produce, local bottled beer, textiles, petrol and bicycle spare parts," the bank said in a report sent to Reuter. The report added that the bank planned to keep inflation at around 8.0 per cent for the 1995/96 financial year ending on June 30.

Mr Yoweri Museveni's government had previously said it wanted inflation lower at about 5 per cent, but bank officials said that target could no longer be met. They blamed higher inflation at the beginning of the financial year.

Rising food prices in Uganda pushed up inflation in the last four months of 1995 after a drought cut yields in parts of the country and prolonged rains in other areas destroyed crops. Annualised inflation reached 9.4 per cent in December.

The rains have now evened out and good harvests recorded in most growing areas are expected to slash inflation further.

The bank acknowledged that commercial bank lending rates remained high at 19 per cent, offered no predictions of future trends.

Foreign exchange purchases in February rose by 15 per cent over the previous month, to a record $130.17m, up from $112.96m in January, the bank said. Sales in Uganda's liberalised money market also rose to $123.03m in February from $110.13m in January.

"Higher levels of foreign exchange transactions were mainly a result of increased coffee export proceeds in the market," the bank said. Coffee accounts for more than half the country's hard currency inflows.

EU to match offers to open up telecoms

European Union foreign ministers yesterday agreed to make a better offer on opening telecommunications networks in world trade talks if other countries did likewise, Reuter reports from Brussels.

"They have agreed that they will improve the offer to meet the best other offers if it proves to be warranted," an EU diplomat said.

The compromise papered over differences between ardent liberalisers such as Britain and more conservative states such as Belgium and Spain, which want to preserve limits on foreign ownership.

It also averted a row that the European Commission nearly caused two weeks ago with a draft proposal to improve the EU's liberalisation offer in the World Trade Organisation talks which would have had the effect of removing all restrictions on foreign ownership.

Diplomats said that Spain in particular had argued strongly that the ministers could not commit the government still to be formed in Madrid to anything. Officials were therefore drafting a declaration letting Spain off the hook for the time being.

Belgium's telecommunications minister, Mr Elio Di Rupo, said last week that the EU should not "open its arms" to foreign competitors before they had opened their own markets. He said Belgium would insist on keeping its 49.9 per cent limit on non-EU ownership of telecoms companies and its restrictions on the number of operators in specific telecoms sectors.

The EU has offered to allow foreign companies to benefit from its internal plan to open all telecoms sectors to competition in most countries by January 1, 1998. But it has come under pressure to do better since the US raised its own bid by agreeing to open up its local telecommunications market.

The governments that are resisting have not necessarily ruled out the possibility of improving the EU's offer later, but see no reason to do so yet, officials said.

Sir Leon Brittan, the trade commissioner, has made it clear in the past that the foreign ownership restrictions had to be considered as negotiable.

The telecommunications liberalisation negotiations, involving some 50 countries, are part of the unfinished business from the Uruguay Round of talks under the General Agreement on Tariffs and Trade.

The Geneva-based negotiations have a deadline of April 30, and trade officials have said there is little prospect of extending the time limit if the talks falter at the final fence.

EU poised to settle rift on S Africa pact

By Caroline Southey in Brussels

EU foreign ministers yesterday were poised to agree a mandate for a wide-ranging trade pact with South Africa, ending four months of internal EU wrangling over the terms of the accord.

Some EU members, notably France and Germany, blocked the draft mandate as it included proposals for the creation of a free trade area (FTA) between South Africa and the EU. It would be the first trade pact to be negotiated under new World Trade Organisation rules on FTAs.

EU member states feared the deal could set difficult precedents for other FTA accords and that opening EU markets to certain South African agricultural products would threaten the Union's agricultural sector.

The accord is likely to continue to provoke controversy as member states have insisted on excluding a range of "sensitive" agricultural products from the free trade aspect of the deal.

Trade officials have warned that the exclusion list, which accounts for 38 per cent of South Africa's agricultural exports, could mean the deal contravenes WTO rules which stipulate FTAs should cover substantially all trade between two parties.

"There is little room for manoeuvre," an EU official said. "If more products are added to the list during the course of negotiations, we risk being in breach of WTO rules."

A further fear is that South Africa could reject the terms of the deal even before negotiations begin. Pretoria was initially opposed to the agreement including the eventual creation of an FTA, arguing instead that South Africa should be given preferential trade terms offered under the Lomé convention.

Mr Abdul Minty, deputy director general in the South African foreign ministry, said rejection of the accord remained an option. "Such a decision will depend on how restrictive the accord is."

He said South Africa was anxious to stress the agreement was not "simply a question of apples. It is about a wider relationship – South Africa's transition to democracy and its role in conflict prevention in the region".

Britain and Sweden are expected to agree to the mandate reluctantly, insisting the list of excluded products would make it difficult to negotiate a satisfactory agreement compatible with WTO rules. "Britain will want a clear understanding from the Commission that it will have to come back for more concessions if necessary," a UK official said.

Yamaha in India motorcycle deal

By Shiraz Sidhva in New Delhi

Escorts Limited, the flagship company of India's Escorts group, yesterday signed a joint venture agreement with Yamaha Motor of Japan to set up a Rs2.1bn ($60.8m) manufacturing hub in India to produce motorcycles for domestic and export markets.

The partners will each invest Rs900m in Escorts Yamaha Motor, with the remainder coming in equity. The joint venture will take over the existing motorcycle manufacturing facilities of Escorts' plant at Surajpur in Uttar Pradesh, near Delhi, where the Yamaha RX100 model has been manufactured with technical expertise from Yamaha since 1985.

A new motorcycle model, the 135cc Yamaha RXG, will begin production from April 1.

The larger RXG model will eventually replace the 100cc RX100 model, which does not conform to latest pollution standards.

Escorts will phase out the RX100 in India by July, but continue to make the model for export to South America and Africa.

Mr Anil Nanda, vice-chairman and managing director of Escorts Ltd and chairman of Escorts Yamaha, said he expected Escorts' 25 per cent share in the Indian two-wheeler market to climb to 35 per cent in the next five years, with plans to sell more than 100,000 units of the new model in the first year.

Other models, including what could be India's first four-stroke motorcycle, would be introduced by 1998.

The company's plans include an increase of more than 20 per cent in turnover, compounded annually, and an annual increase of 25 per cent in export turnover, with an export target of up to 40 per cent of production volume.

Mr Nanda said the companies would co-operate in two other ventures – marketing and research and development.

Yamaha would hold a majority stake in the research and development venture while Escorts would control the marketing venture, Mr Nanda said.

Vietnam struggles to refine policy on fuel

Vietnamese petrol stations look much like those in Europe. Bunting strung across the forecourt displays the logos of foreign companies such as British Petroleum, Shell and Esso, and attendants in overalls dispense fuel to waiting motorcyclists.

But one thing is missing – none of the foreign companies sells a drop of petrol to Vietnam's consumers. The flags hang as a marketing ploy, anticipating the day when Vietnam will allow foreigners to invest in its potentially huge fuel distribution and retail market.

Vietnam is alone among its neighbours in denying foreigners access to the downstream sector, where fuel consumption is growing at 15-20 per cent a year on the back of burgeoning motorcycle ownership and increasing fuel demand from airlines and industry.

Shell puts oil consumption in Vietnam at 4m tonnes in 1994, reaching 25m tonnes by the year 2011. All of this will have to be imported until Vietnam builds a refinery.

On paper, Vietnam appears attractive to foreign oil majors. But ideological unwillingness on the part of the ruling Communist party to relax controls on what it sees as a strategic industry is shutting them out. Another reason is reluctance by local monopolies to relinquish a share of the market to foreign players.

"Foreign companies... need some reassurance as to the likelihood of finding acceptance in the main downstream sector. They would appreciate clarification of policy from the government as soon as this is possible," says Mr Howard Gatiss, general manager of Shell Vietnam.

The first hurdle the oil industry must jump is deregulation. Vietnam's socialist principles of maintaining subsidies on utilities present a formidable obstacle to a free market. Hanoi would have to show some flexibility on this before any foreign company would be willing to invest, and so far the government has shown no sign of even debating such a move.

Another problem is a possible turf war between Petrolimex, which dominates the local fuel market, and PetroVietnam Processing and Distribution (PVPDC), a company set up by the state energy agency last September to challenge Petrolimex.

The move was instigated to enable PetroVietnam to extend its reach from exploration into downstream activities. PetroVietnam has signed 29 contracts with foreign companies for offshore exploration and has a large stake in the feasibility study for Vietnam's first oil refinery.

Despite the increasing demand, foreign companies cannot dispense fuel — Sarah Murray

The establishment of PVPDC sets the scene for a battle between the new company and Petrolimex, a monolithic company run by the ministry of trade and which has 70 per cent of the downstream market. Four smaller companies account for the remainder.

PetroVietnam, with a strong fuels distribution and marketing network, will be well placed to profit from the country's first oil refinery, in which it will have a large stake.

PetroVietnam has said the refinery, planned for a remote coastal site at Dung Quat, will be producing 130,000 barrels per day. Five foreign companies – Conoco, a unit of Du Pont of the US, Petronas, Malaysia's state oil agency, LG Group of South Korea, and Chinese Petroleum and China Investment and Development of Taiwan – are working with PetroVietnam on a feasibility study that should be finished in July.

Despite having received the nod to set up a rival downstream business, it is not clear how PetroVietnam will achieve it. "They have been given a mandate to compete in the downstream market but they don't have a tank or a petrol station," says one foreign oil company executive.

Perhaps more serious, the Vietnamese have yet to decide on details of its competitive environment. Industry experts say it would be unworkable to have PetroVietnam controlling the distribution and sale of output from Dung Quat with Petrolimex still selling fuel imports.

In any case, Petrolimex is likely to take a dim view of PetroVietnam's ambitions, particularly having received no signals from the government that it should make way for a second, state-run player.

In addition, the prospect of having to lay off some of its bloated workforce of 13,000, inevitable given a competitive challenge from PVPDC and possibly foreign companies, is likely to encourage Petrolimex to dig in its heels.

PetroVietnam's only hope, foreign oil companies say, is to play the refinery card and hope this will work in the long term. "Whatever national company has a refinery has got one over any other company," says the oil executive.

This is where the question of the refinery is crucial. Despite bluster from the government over its plans for the refinery, oil industry experts doubt it will be up and running by the target date of 2000. Investors have to build the surrounding infrastructure from scratch, even if they are able to find someone willing to finance the project.

Meanwhile, there are worries that crucial decisions on opening up the downstream sector will be postponed until Hanoi sorts out Petrolimex's and PetroVietnam's respective roles. This is bound up to an extent with the timetable on the first refinery.

Dr Mr Nguyen Thanh Hai, deputy managing director of PVPDC, says foreign companies could be involved but that the debate over the extent of their involvement has only just started.

Jeremy Grant

Beijing claims success in putting pressure on Lee over reunification

China praises Taiwan's president

By Tony Walker in Beijing and Laura Tyson in Taipei

China displayed an abrupt change of approach yesterday when it appeared to praise President Lee Teng-hui of Taiwan, after spending the past nine months castigating him for his alleged independence tendencies.

The official Xinhua news agency portrayed Mr Lee as having advocated reunification during his successful campaign for a popular mandate through a presidential election last Saturday, although it made plain that it believed Chinese pressure had obliged him to adopt this position.

"The struggle carried out in the mainland and overseas against splittism and Taiwan independence had dealt a telling blow to those advocating Taiwan independence and splittism," Xinhua said. "During the election Lee Teng-hui had to declare time and again that he will seek China's reunification, that he will not pursue Taiwan independence, and that after winning the election he will try to improve cross-straits relations," it added.

A senior Taiwanese official charged with shaping the country's policy toward China called, meanwhile, for restoration of contacts between Taipei and rival Beijing to ease tensions.

"We want dialogue, not confrontation ... relations of mutual assistance and development," said Mr Chang King-yuh, chairman of the cabinet-level Mainland Affairs Council.

Another senior Taiwanese official challenged China to become democratic, dangling the lure of speedy voluntary unification if it were to do so.

"As long as China can make up its mind four years from now to elect the president of all China with all the Chinese in Taiwan - that will be the time of the real reunification of China," Mr James Soong, provincial governor, told a rally in southern Taiwan.

Both Taipei and Beijing officially seek eventual unification, but do not agree on the timing or method. The government spokesman, Mr Jason Hu, yesterday departed for the US to explain Taiwan's post-election political situation and current policy toward China.

In Beijing, a western official said it was "heartening" that China should have decided to "ratchet down" tensions with Taiwan. She said it showed that Beijing was capable of deftness when it realised it might have been too heavy-handed.

China, which concluded military exercises yesterday in the Taiwan Strait, had conducted missile tests and a number of rounds of military exercises in attempts to intimidate voters in the island's first democratic presidential election. Nonetheless, Mr Lee won with 54 per cent of the vote.

Taipei share prices ended flat after an early rally yesterday was eroded by profit-taking. Investors are waiting for more definitive signals as to the future direction of cross-strait relations.

China's surprising about-face on Mr Lee has been accompanied by conciliatory offers of high level meetings across the Taiwan Strait and calls for the speedy conclusion of agreement on direct air, sea and postal links.

A lesson for the Chinese, Page 12

Okinawan landowners protesting against renewals of US military land leases in Naha yesterday AP

Okinawa told to renew leases to US military

By William Dawkins in Tokyo

A Japanese high court yesterday provided legal backing for the largest US military base in Asia by ruling that the governor of the island of Okinawa must renew US leases there.

The ruling by a court in Naha, the Okinawan capital, authorises Mr Ryutaro Hashimoto, the prime minister, to sign the leases after three days if Mr Masahide Ota, governor of the small southern island which is host to 28,000 of the 47,000 US troops stationed in Japan, continues to refuse.

This brings to a climax an emotional protest by Okinawans against the island's military burden, seen by the US and Japanese governments as central to the two nations' security alliance and vital to projecting US force into east Asia, an insurance against instability in a historically volatile region.

Mr Ota said he would consult those concerned before deciding whether to sign. Initial indications were that Okinawans were accepting the judgment with relative calm.

Mr Ichiro Otsuka, the presiding judge, rejected the governor's claim that compulsory expropriation of land was unconstitutional.

Okinawan protests at the Japanese government's insistence that the island host such a large contingent of troops boiled over into an open campaign for the removal of all troops after last September's rape of a schoolgirl. Three US servicemen were convicted of the offence.

In consequence, nearly 3,000 of the 32,000 Okinawans who compulsorily lease territory to the US announced that they would refuse to renew leases representing around a tenth of the land used by the US military.

Of the total, 35 leases were included in yesterday's judgment. One plot, containing a military telecommunications post in Yomitan, was due to expire at the end of this month. Mr Hashimoto, a firm supporter of the security alliance, was expected to sign the lease without hesitation. However, legal officials said the new lease would not be ready by the deadline. That means Mr Hashimoto would have to consult an Okinawan prefectural panel on emergency land use to regularise the US use of the Yomitan telecommunications centre.

New move to catch that falling Star

Tony Walker examines the latest attempt by Rupert Murdoch to secure a place in the all-important China market for his troubled Asia broadcasting company

Mr Rupert Murdoch may not have welcomed the advice. Indeed the words from a Chinese official carried an implied criticism of the efforts of his global media group News Corporation to break into the China market.

The message was passed informally to Mr Murdoch last year that "when a giant comes to China, he should tread lightly".

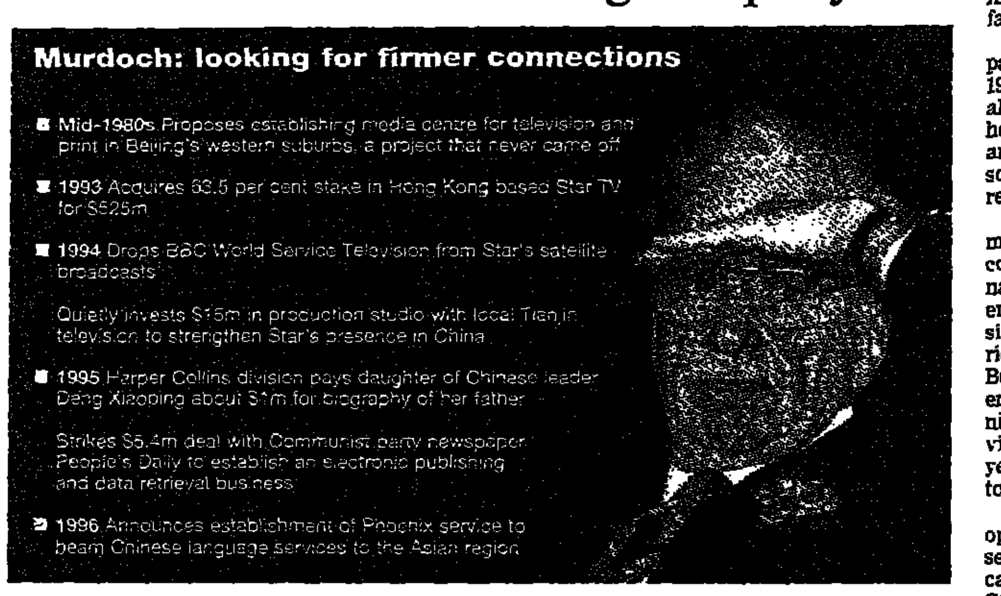
Whether Mr Murdoch and executives of his Hong Kong-based satellite broadcaster Star TV have absorbed this advice is moot as they make fresh efforts to overcome resistance to distribution within China of Star programming.

Star TV's announcement that it was linking up with two Hong Kong-based companies - Today's Asia and China Wise International - to provide a satellite service tailored for the Chinese-language market is the latest in a series of attempts by the Murdoch organisation to strengthen its foothold in China.

But the deal will not of itself deliver for Star access to the coveted subscription cable market in China which remains the holy grail for Mr Murdoch. Star will need mainland partners if it is to secure a share of subscriptions that would come with the officially sanctioned distribution of a cable service re-transmitting Star's satellite-delivered material.

While Star's satellite service claims an audience of 32m homes in China, the response from advertisers has been limp.

Star clearly hopes that in time its new Mandarin Chinese-language service, to be called Phoenix, will be accepted by Beijing for widespread cable distribution; although conspicuously absent from yesterday's announcement was even so much as a hint of any tie-up with mainland organisations such as China Central Television or the Ministry of Radio, Film and Television capable of delivering such a deal.



Star, which broadcasts Asia-wide, is losing $80m (£53m) to $100m annually, and unless it finds a way to crack the crucial China market, prospects are for continuing losses. It is not clear how its deal with the two Hong Kong-based companies would smooth the way for Star in China; although in a murky world of back-door deals and connections such a possibility cannot be ruled out.

Star's partners in Phoenix certainly could not be described as frontline players in regional media. Mr Chan Wing Kee, head of Today's Asia, which will have 45 per cent of the new venture, is referred to in Star TV's press release as managing director of the Yangtzekiang Garment Manufacturing Company.

Today's Asia's media activities have involved investment in TV production and publishing, including a programme on Deng Xiaoping and an eight-volume pictorial history of China. Mr Chan is a member of the 150-member Preparatory Committee established by Beijing to oversee the handover next year of Hong Kong to Chinese sovereignty.

Mr Zhou Yi Nan, whose China Wise International will have 10 per cent, is said to have "wide-ranging experience in both the technical and programming sales and distribution aspects of the industry". China Wise itself was said to act as a sales and marketing agent for television stations in China. Inquiries of Mr Zhou's office in Hong Kong yesterday drew a blank.

A representative of China Central Television in Beijing said the organisation had "no knowledge" of Today's Asia or China Wise. Furthermore, CCTV had "not been in touch with Star for months, let alone involved in negotiations". Star itself has sought to engage CCTV in negotiations over a long period, but with limited success.

The Phoenix deal, which will involve the establishment of three Chinese-language channels to broadcast sport, films and popular entertainment as a means of raising Star's profile in China, smacks of News Corp's somewhat scattergun approach. It is an open question whether this approach will soften Beijing's resistance to Star.

Efforts to break into China include a $10m-$15m investment in a film studio with Tianjin television to the east of Beijing, a $5.4m investment in an on-line computer publishing venture with People's Daily, the Communist party newspaper, and a $1m deal with Ms Deng Rong, daughter of China's supreme leader Deng Xiaoping, to publish her father's biography.

But for Star - Mr Murdoch paid $800m for the network in 1993 and is looking at an overall investment of $1bn before he turns a profit - the stakes are high and access to subscription-paid cable networks remains a glittering prize.

An indication of the enormous potential of cable in a country where the estimated national urban viewing audience is 360m (the total television audience is 852m) is experience in both Shanghai and Beijing. In Shanghai, subscribers leapt to 1.5m virtually overnight when the new cable service became available last year. In the capital subscribers to Beijing Cable number 1m.

But Star faces formidable opposition in its efforts to secure entry to China for a cable subscription service. CCTV itself is developing its own cable network and would not necessarily welcome Star as a competitor.

Star also had "serious political problems" with Chinese TV regulators, according to a foreign lawyer in Beijing who specialises in the media. China's crackdown on satellite dishes in 1993 came partly in response to Star's own claims that its satellite broadcasts were reaching 32m Chinese households. Beijing saw this as an affront to its efforts to control the flow of information into the country.

In the end, Mr Murdoch's cause has not been helped by his statement in September 1993 that "advances in the technology of telecommunications have proved an unambiguous threat to totalitarian regimes everywhere". Chinese officials have long memories.

Ramos tries to speed up forces' modernisation

By Edward Luce in Manila

President Fidel Ramos yesterday urged the Philippine armed forces to accelerate the modernisation of the country's military in the light of heightened regional tensions in the Taiwan Straits.

Mr Ramos said implementing a $15bn armed forces modernisation law passed 10 months ago was increasingly urgent because of growing uncertainty in the South China Sea.

"In such a situation where some of our neighbours are nervously shoring up their defences on the one hand and rattling their sabres on the other we can hardly afford to forego the modernisation of our armed forces," Mr Ramos told military officers.

The modernisation law, which provides for an initial $2bn for military equipment over the next five years, is intended to refocus the Philippine military towards external threats after decades of fighting internal Communist and Moslem separatist insurgencies.

Most of the money will go on upgrading the country's navy and airforce to combat piracy in the South China Sea and to defend the country's claim to parts of the Spratly Islands (contested by five other countries including China).

Manila government officials have expressed frustration at their military's slow pace in acquiring new hardware. One theory is that armed forces chiefs are reluctant to shift from an infantry-based military towards one with a high technology structure, owing to the resultant job losses. Mr Ramos, a former five-star general, yesterday sought to allay fears of large-scale redundancies.

Mr Ramos, however, did not say whether a $127m contract with GEC-Marconi to supply the country's first national radar system - for military and civilian use - would go ahead. The deal, suspended in December after a leading senator accused the British defence company of overcharging for the equipment, was to be funded by a concessional loan from the UK government which expires on March 31.

The Philippine military, which has complained that it was not consulted on the GEC contract, has opened bidding for a military radar system. This would be the first hardware acquired under the modernisation law.

ASIA-PACIFIC NEWS DIGEST

Japan's household spending rises

Japanese household spending rose 3.4 per cent in the year to January, the first increase in eight months, according to official data yesterday, but private sector economists warned this overstated the strength of the recovery.

January spending, reported by the government's Management and Co-ordination Agency, is unusually flattered by comparison with the same month last year, when consumer spending plunged in the shocked aftermath of the Kobe earthquake. Nevertheless, this is the latest in a series of encouraging recent economic data, including last week's announcement of a 3.6 per cent annualised increase in gross domestic product in the three months to December.

The survey is centred on salaried households, though, which have relatively stable spending habits. Elsewhere, the consumer spending upturn is as yet patchy, on the evidence of industry figures issued yesterday. Supermarket sales more or less stagnated - up 0.1 per cent - in February. Department stores, whose sales are around half those of supermarkets, reported a 5.1 per cent increase in business last month, thanks to clearance sales. *William Dawkins, Tokyo*

N-powers sign Pacific treaty

France, Britain and the US signed the South Pacific Nuclear Free Zone Treaty yesterday, agreeing to ban nuclear weapons from the region in a move hailed as finally ending its use as a nuclear "playground". In a signing ceremony in the Fijian capital, Suva, representatives of the three nuclear powers put their long-sought signatures to the 11-year-old treaty, joining the other declared nuclear powers, Russia and China.

The signing comes two months after France carried out its sixth and final underground nuclear test in French Polynesia. The test series was widely condemned in the South Pacific and harmed French ties with the region.

The South Pacific Forum, which represents the region's 16 nations, including Australia and New Zealand, said France's commitment to the treaty would help repair relations and put an end to nuclear tensions in the region. *Reuter, Suva*

■ Retail sales in Hong Kong fell 8 per cent in January from a year earlier, the colony's Census and Statistics Department said yesterday, blaming a later Chinese New Year. *AFX Asia, Hong Kong*

■ India must invest up to $150bn (£98bn) in its oil and natural gas industry by 2010 to meet a projected trebling in demand, said Mr Bob Atkinson, area export manager for Britain's Department of Trade and Industry. *Reuter, Bombay*

■ The Philippines expects gross domestic product growth of 6.9 to 7.6 per cent in 1997 after 6.2 to 6.9 per cent this year. *AFX Asia, Manila*

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

	■ UNITED STATES					■ JAPAN					■ GERMANY				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.1	99.8	85.0	100.9	95.3	101.4	102.8	118.4	99.9	97.5	103.6	103.8	107.5
1987	105.6	100.7	103.9	97.5	76.1	101.3	92.5	103.1	100.1	122.8	100.1	95.0	107.9	107.1	110.9
1988	109.9	103.2	106.8	99.4	71.0	102.4	92.3	107.8	96.9	130.9	101.4	96.2	112.6	106.9	109.8
1989	115.2	108.5	109.9	101.4	74.8	104.7	94.2	114.0	96.9	123.5	104.2	99.3	117.1	108.0	107.5
1990	121.5	113.9	113.5	104.0	73.2	108.4	95.7	120.1	99.8	108.1	107.0	101.0	123.5	110.3	109.9
1991	126.6	116.3	117.3	107.3	73.9	111.9	96.8	124.3	104.0	114.2	110.9	103.4	131.3	115.0	107.5
1992	130.4	117.7	120.1	107.0	74.0	114.0	95.9	125.8	112.9	115.9	116.8	104.9	138.2	121.5	110.4
1993	134.3	119.2	123.1	106.7	76.3	116.4	94.3	125.8	118.9	133.5	121.7	105.1	145.6	125.9	111.8
1994	137.8	119.9	126.5	105.4	74.3	116.2	92.6	126.3	118.5	139.0	125.1	105.7	150.8	118.1	110.2
1995	141.7	122.2	129.5	104.7	68.7	115.9	92.0	132.4	115.9	140.4	127.4	107.5			115.5
1st qtr.1995	2.8	1.7	2.1	-1.3	70.2	0.0	-0.8	4.0	-4.0	140.5	2.0	1.7	1.9		115.3
2nd qtr.1995	3.1	2.1	2.3	-0.6	68.5	-0.1	-0.5	2.2	-3.4	153.4	1.9	1.9	3.8		116.8
3rd qtr.1995	2.6	1.6	2.7	-0.7	68.5	-0.2	-0.5	3.7	-0.3	138.7	1.7	1.9			115.2
4th qtr.1995	2.7	2.2	2.8	-0.3	69.6	-0.8	-0.7	3.1	-0.9	129.1	1.7	1.3			115.1
March 1995	2.8	1.8	2.2	-1.1	69.2	-0.4	-0.5	3.4	-3.8	145.7	1.9	1.8	n.a.		117.7
April	3.0	2.1	2.3	-0.8	68.1	-0.2	-0.4	3.5	-4.5	155.0	2.1	2.0	n.a.		117.6
May	3.2	2.2	2.2	-0.5	66.8	-0.1	-0.5	3.5	-3.7	152.5	1.8	1.9	n.a.		116.3
June	3.0	2.1	2.3	-0.5	68.5	0.0	-0.6	0.6	-2.1	152.8	1.9	2.0	n.a.		115.0
July	2.8	1.7	2.8	-0.2	68.6	-0.1	-0.7	6.5	-0.3	147.1	1.8	2.0	n.a.		116.7
August	2.6	1.3	2.8	-0.5	69.7	-0.4	-0.7	0.3	-0.2	138.1	1.7	1.8	n.a.		114.7
September	2.5	1.8	2.6	-1.4	69.9	-0.1	-0.6	4.4	-0.4	130.8	1.8	1.9	n.a.		114.3
October	2.8	2.3	2.8	-0.6	69.2	-0.9	-0.6	2.3	-1.4	129.3	1.8	1.6	n.a.		115.9
November	2.6	2.0	2.5	-0.6	69.6	-0.8	-0.6	1.2	-0.4	126.1	1.7	1.3	n.a.		115.1
December	2.5	2.2	2.7	0.2	70.2	-0.5	-0.8	4.2	-0.8	129.6	1.8	1.2	n.a.		114.1
January 1996	2.7	2.3	3.3	-0.8	71.1	-0.4	-0.8	0.8		125.7	1.5	0.0	n.a.		113.0
February	2.8	2.0				-0.2						-0.2	n.a.		

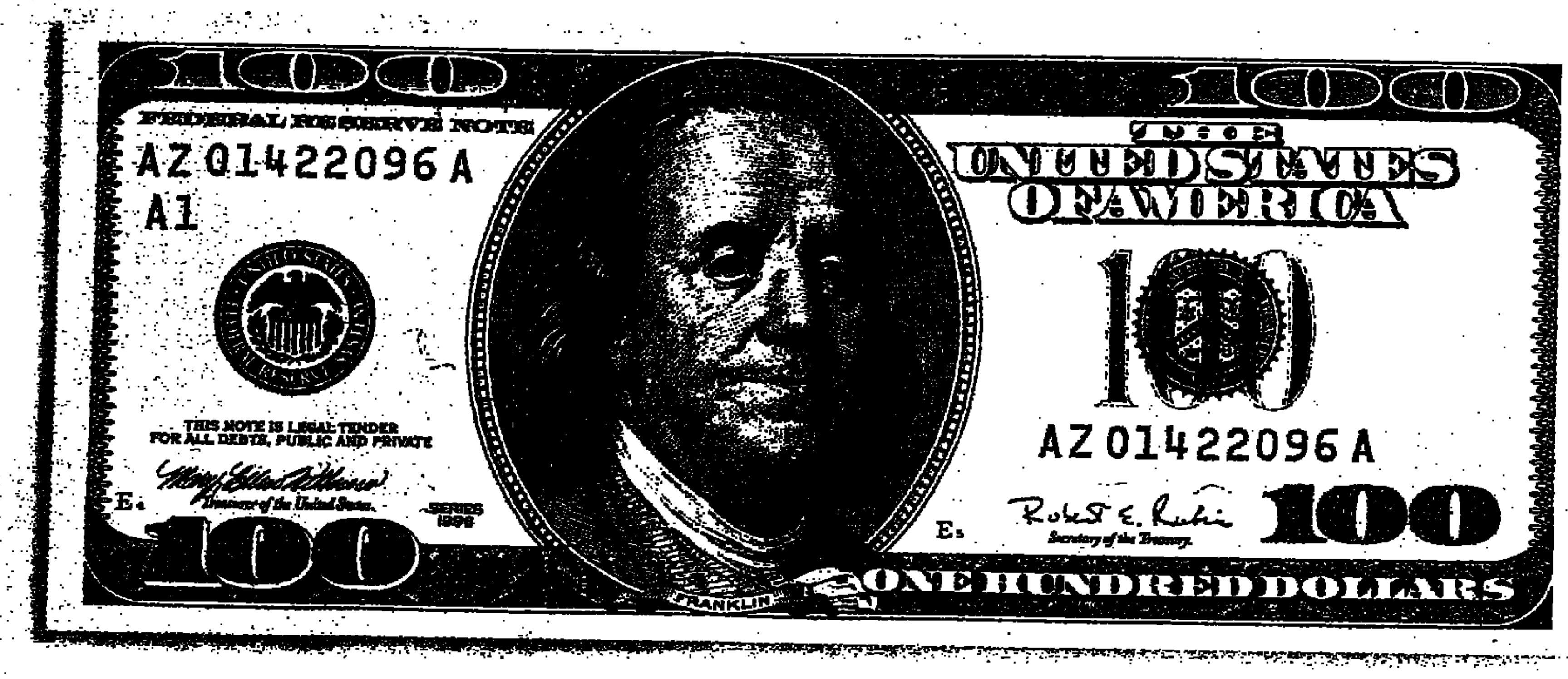
	■ FRANCE					■ ITALY					■ UNITED KINGDOM				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	102.5	98.0	104.5	101.6	103.4	106.1	100.2	104.8	102.7	101.3	103.4	101.4	107.7	105.1	94.3
1987	105.9	98.1	107.8	103.0	104.7	111.0	103.2	111.6	105.5	102.1	107.7	104.9	116.3	107.5	94.5
1988	108.8	102.8	111.1	104.1	102.1	116.5	106.8	118.4	108.9	100.9	113.0	108.7	126.2	110.3	102.3
1989	112.6	108.2	115.4	105.2	99.8	124.2	113.1	125.8	112.3	105.1	121.8	113.9	137.2	115.1	101.2
1990	116.5	107.1	120.8	109.6	102.9	131.8	117.6	134.7	118.8	111.9	133.3	121.0	150.1	122.7	102.4
1991	120.2	105.8	125.6	113.4	100.7	140.3	121.7	147.9	129.5	113.1	141.2	127.6	162.4	129.5	105.1
1992	123.1	104.3	130.3	115.6	104.5	147.7	124.0	155.9	134.3	109.8	146.4	131.5	173.1	130.5	97.7
1993	125.8	101.8	133.7	118.1	107.0	153.9	128.7	161.5	136.7	93.5	148.7	136.7	180.9	130.4	90.2
1994	127.7	102.7	136.7		106.5	160.0	133.6	167.0	137.9	93.5	152.4	140.1	189.5	130.4	91.2
1995	130.0				105.8	168.6	143.9	172.2		90.8	157.6	145.9	197.9	134.7	86.1
1st qtr.1995	1.7	7.5	2.0		106.2	4.4	6.5	2.5	0.5	86.6	3.4	3.6	5.0	2.1	90.0
2nd qtr.1995	1.8	8.8	2.0		106.4	5.5	8.8	2.3		87.4	3.4	4.2	4.7	3.0	87.3
3rd qtr.1995	1.8	7.7			107.0	5.7	9.0	3.6		92.4	3.7	4.4	4.3	3.5	88.0
4th qtr.1995	1.9				107.5	5.9	7.2	3.9		92.8	3.2	4.4	3.9	4.5	87.2
March 1995	1.8	n.a.	n.a.	n.a.	107.3	4.8	7.5	2.3	n.a.	85.3	3.5	3.8	4.8	1.4	88.2
April	1.6	n.a.	n.a.	n.a.	107.9	5.2	8.2	2.3	n.a.	83.7	3.3	4.2	5.2	2.7	87.3
May	1.6	n.a.	n.a.	n.a.	105.3	5.5	9.0	2.3	n.a.	88.5	3.4	4.2	4.5	3.3	87.4
June	1.6	n.a.	n.a.	n.a.	106.0	5.8	9.2	2.2	n.a.	89.4	3.5	4.2	4.4	2.8	87.3
July	1.6	n.a.	n.a.	n.a.	106.8	5.6	9.2	3.5	n.a.	89.8	3.5	4.4	4.9	4.1	87.2
August	1.9	n.a.	n.a.	n.a.	108.9	5.8	9.0	3.4	n.a.	93.0	3.6	4.4	4.2	3.1	88.1
September	2.0	n.a.	n.a.	n.a.	107.1	5.8	8.7	3.9	n.a.	94.4	3.9	4.4	3.9	3.3	88.5
October	1.8	n.a.	n.a.	n.a.	107.2	5.8	7.9	3.9	n.a.	92.7	3.2	4.4	4.0	4.6	87.9
November	1.9	n.a.	n.a.	n.a.	108.1	6.0	7.2	3.9	n.a.	93.5	3.1	4.4	3.7	4.4	87.0
December	2.1	n.a.	n.a.	n.a.	107.4	5.8	6.5	3.8	n.a.	95.2	3.2	4.4	4.1	5.0	86.7
January 1996	2.0	n.a.	n.a.	n.a.	107.2	5.5	5.9		n.a.	97.1	2.8	3.6	3.9	3.0	88.0
February	2.0	n.a.	n.a.	n.a.		5.0					2.7	3.7			

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US - finished goods, Japan - manufactured goods, Germany - industrial products, France - intermediate goods, Italy - total producer prices, UK - manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies, Germany - mining and manufacturing, other countries - manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate indices versus 18 industrial country currencies, adjusted for change in relative wholesale prices of domestic manufactures. A fall in the index indicates improved international competitiveness.

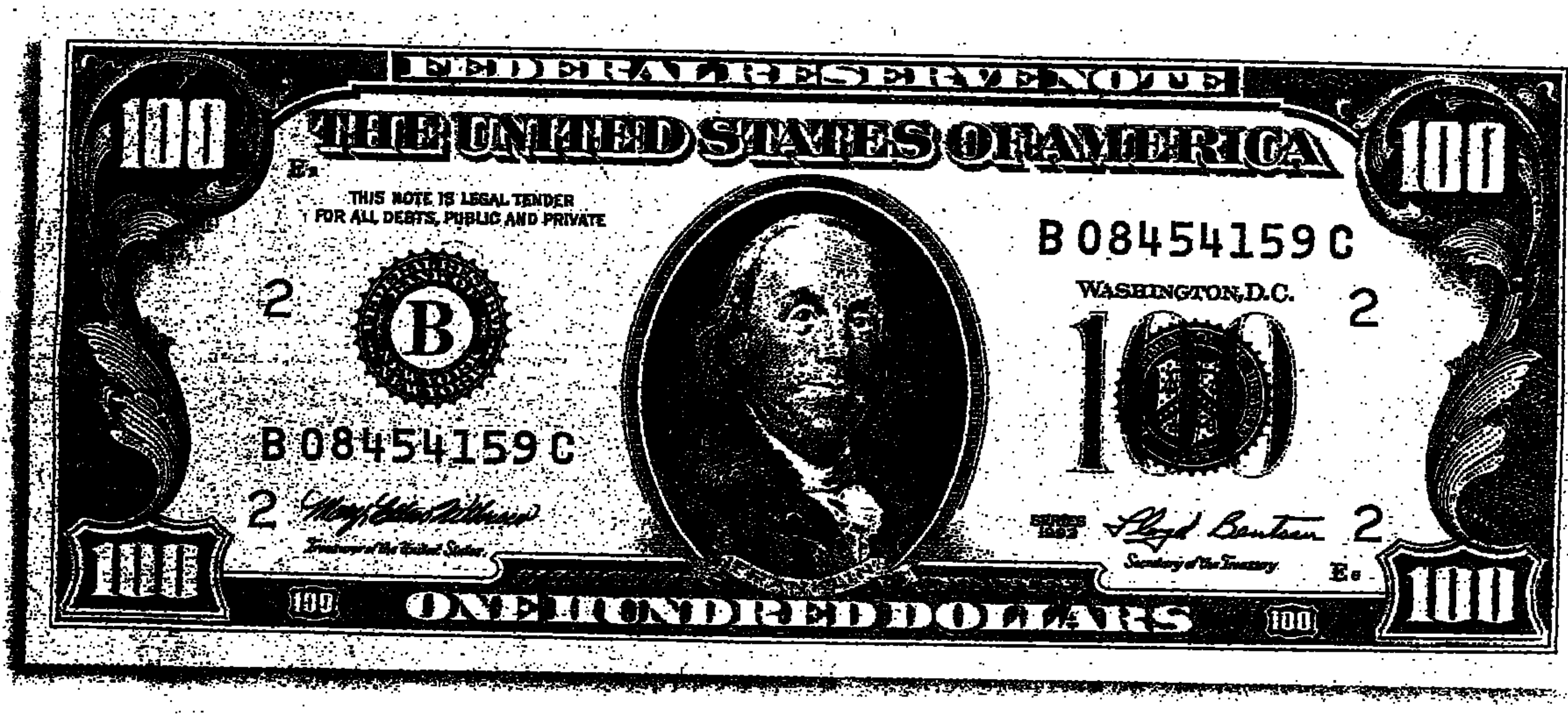
هكذا من الأصل

Introducing the new U.S. $100 note

It doesn't look quite the same,



NEW



OLD

but it's worth the same.

The 1996 U.S. $100 note, which will soon be in circulation, has been redesigned for one simple reason: to stay ahead of new printing technologies that could be used for counterfeiting.

Both the new notes and the older notes in circulation have exactly the same value. You will always be able to use them interchangeably.

The 1996 U.S. $100 note is the first denomination to be redesigned. Other denominations will be phased in over the next several years.

Additional features for greater protection.

In order to accommodate a number of new security features, the overall design has been changed.

While the note is still easily recognizable as American currency, the portrait of Ben Franklin has been enlarged and moved slightly off center to create space for a watermark. This mark will be visible when the note is held up to the light.

Other features include the addition of color-shifting ink, microprinting, concentric fine-line printing and a security thread that now glows under ultraviolet light.

No recall. No devaluation. No time limit.

It is important to remember that the United States government will continue to honor all its currency now in circulation at its full face value. The United States has never recalled or devalued any of its currency and will not do so now.

If you have any questions, please contact the nearest U.S. Embassy or the U.S. Treasury Global Information Center at (202) 872-8177.

This message from the U.S. Treasury and the Federal Reserve Board

Jobless drop would not boost inflation, says OECD

By Gillian Tett, Economics Correspondent

Unemployment could fall much further in the UK without triggering inflation, the Organisation for Economic Co-operation and Development believes. The argument, which comes as the OECD prepares its latest annual report on the UK economy, is likely to provide a welcome boost for the British government.

However, the OECD also fears that growing social inequality is presenting a serious problem for policymakers. In an argument likely to be seized on by the opposition Labour party, the OECD says a principal priority for the government should be finding ways to reintegrate the excluded, unemployed poor. The report on the UK economy by the OECD, which acts as an influential free market think-tank for industrialised nations, will not be completed until early summer.

However, UK government officials have had discussions this month with OECD economists and other member countries about preliminary drafts of the report. The OECD currently has 26 members, and Hungary will be granted membership at the end of the week.

The OECD believes the British economy will show steady growth in the coming year, albeit with the upturn coming slightly later than the UK Treasury expects. Meanwhile, the Paris-based group is increasingly optimistic about the impact of British labour market reforms in the 1980s on the broader economy. OECD economists have previously indicated that they believed that unemployment in the UK could fall to about 7 per cent from its current 7.9 per cent without triggering inflation.

However, some now suspect that it could fall even further – perhaps as far as below 6 per cent – without fuelling inflation. This drop would yield an unemployment rate of about 1.5m, which would be in line with the British government target disclosed by Mr Kenneth Clarke, chancellor of the exchequer.

However, with the OECD believing that this trend leaves the UK with one of the better labour market pictures in Europe, it is now focusing its criticism on other areas of the economy – including inequality.

An OECD study at the end of last year showed that, although income differentials in the UK were smaller than countries such as the US and Italy, the gap between rich and poor grew faster during the 1980s than in any other industrialised society.

This development has prompted concern at the OECD. However, recent criticism over the issue has irritated some UK government officials. They question whether the issue should be included in the OECD's analysis, partly because the methodology for calculating income inequalities is controversial. But the OECD argues that it is now trying to include a far greater focus on social issues such as unemployment and welfare in its economic analysis.

More top diplomatic posts go to women

By Bruce Clark, Diplomatic Correspondent

For the first time, more than half the members of a new generation of entrants into the elite division of the British *Foreign Office are female.*

But the institution which these high-flying young women are joining has become a tougher place, more like the private sector in its internal structure, and more focused on promoting UK business in order to justify its existence.

Foreign Office officials say these are some of the main messages in the annual report from an organisation which has to fight harder than ever to keep its budget and convince the world it is changing with the times.

From this point of view, the fact that 12 of the 21 graduates who joined the Foreign Office's elite stream last year are women is welcome. Less welcome is the fact that only one member of last year's lucky few, selected from about 2,500 applicants, belonged to an ethnic minority.

In most recent years, the share of female entrants has been one-third or less, and claims by the diplomatic service to be an equal opportunity employer received a blow in January when its top woman, Dame Pauline Neville-Jones, resigned after failing to be named ambassador to Paris. To counter this impression, the report will highlight the case of Ms Jessica Pearce, Britain's woman in Minsk, who at 38 is among the youngest serving ambassadors.

As for the FO's raison d'être, the report puts more emphasis than ever on the promotion of UK business – asserting that 35 per cent of embassies' activity is commercial compared with 21 per cent for political analysis.

The report will confirm the cuts in spending on the BBC World Service and the British Council, which caused controversy when announced last year. Spending on the World Service is projected to fall to £161m ($246m) in 1997-98 from £178m in 1995-96.

Photomasking plant bought by Photronics of US

By Ian Hamilton Fazey in Manchester

Photronics, the leading US manufacturer of photomasks, has bought the photomasking business of GEC-Plessey and will use it as a base for a £47m ($72m) development at Trafford Park in the northern England city of Manchester.

The company also expects to complete the purchase of Litomask in Neufchatel, Switzerland, from the CSEM group later this week. Although Photronics claims to be the largest photomask manufacturer in the world, it has only a 10 per cent share of the European market and intends to increase this.

Photomasks are an important element in the manufacture of semiconductor chips. They are high-precision quartz plates containing microscopic images of electronic circuits. These are used for etching circuit patterns into semiconductor wafers.

The Trafford Park development will create about 270 jobs, and 53 jobs will move to the factory from GEC-Plessey's plant at nearby Oldham. The £47m cost includes the purchase figure, which is not being disclosed. Grants from the UK government, Manchester Training and Enterprise Council and Trafford Park Development Corporation total £3m.

The corporation has demolished 20 small industrial units, built less than 10 years ago, to create a 0.8ha waterside site for the new factory in Manchester's docklands. Mr Michael Yomazzo, chief executive of Photronics, said yesterday: "The semiconductor business is a global one where our customers use just-in-time principles and want their photomasks at 24 hours' notice. The European market grew by 45 per cent last year. We could not service it satisfactorily from the US."

Mr Constantine "Deno" Macricostas, chairman, added: "With this, the Swiss purchase and new plants in Singapore and South Korea, we are going global. We chose Trafford Park because of its excellent strategic location near Manchester Airport and on the UK national motorway network."

The company's US plants are in California, Colorado, Connecticut and Texas. Its main competitor around the world is Du Pont. Mr Macricostas said expansion of manufacturing outside the US was now possible because of Photronics' own growth in domestic markets. Last year it reported record profits and sales of $125.3m and $18.6m respectively.

Mr Basil Jeuda, chief executive of Inward, north-west England's inward investment agency, said Photronics was the 32nd project won by the region in the past 12 months.

Korean company to invest $13m in N Ireland

By John Murray Brown

A small South Korean machine tools company is to invest £8.5m ($13m) and create 230 jobs in staunchly republican west Belfast, giving a boost to one of the most economically depressed areas of Northern Ireland.

The announcement by YG-1, a privately owned company, was welcomed by Sinn Féin, the IRA's political wing, and the moderate nationalist Social Democratic and Labour party.

The investment is in line with the government's policy of boosting economic activity in deprived areas like west Belfast, where unemployment is more than 20 per cent and fear of sectarian violence has frightened off many potential investors.

YG-1 will manufacture end-mill cutting equipment for the aerospace and automotive engineering sectors in Belfast. It will also locate its European base and marketing and sales operation in the province.

The company is to receive a £3.2m grant from the Northern Ireland Industrial Development Board, which has made a concerted effort to attract South Korean investment. About £70m has been committed to six projects since 1989, with the promise of about 2,000 jobs. A number of other Korean projects are under discussion.

Baroness Denton, the Northern Ireland economy minister, is in Japan and due in Seoul, the South Korean capital, on Thursday. She is expected to announce a £15m expansion of Daewoo's video recorder plant at Antrim, with the prospect of a further 330 jobs.

Negotiations are continuing with Daewoo over a possible £1bn venture with Texas Instruments for a Northern Ireland semiconductor plant.

Mr Hokeun Song, the YG-1 president, said: "The attractive incentives package and the efficiency of the transport links to Great Britain and other parts of Europe, provided an irresistible combination of bottom-line business benefits." YG-1 was "also influenced by the comments and achievements of Korean companies such as Daewoo, Daesung, and Daeryung already established".

An uneasy peace

Feb 9: Blast near Canary Wharf in London kills two men and shatters buildings an hour after IRA statement says that "with great reluctance . . . the complete cessation of military operations will end at 18h00."

Feb 10: Pro-British paramilitary opponents of IRA in Northern Ireland say they will "consider their position in a calm and orderly way."

Feb 14: 500 soldiers from British army's Royal Irish Regiment based in England are posted to Northern Ireland

Feb 15: Police find small IRA explosive charge in London phone box.

Feb 18: Bomb carried by IRA member in London bus explodes as he stands up from seat, tearing bus apart. IRA says: "We regret the loss of life and injuries which occurred."

Mar 5: Political allies of pro-British paramilitary groups warn of "serious difficulties" in avoiding return to violence in face of IRA attacks in England.

Mar 6: Gerry Adams says after meeting IRA that it is prepared for "another 25 years of war".

Mar 16: Nine-year-old girl shot in her home in Belfast in internal feud in hardline Irish National Liberation Army.

Mar 12: Combined Loyalist Military Command, representing anti-nationalist paramilitary groups, says it is ready to match IRA "blow by blow."

Mar 19: Shooting of man from passing car is thought to be INLA faction's revenge for attack on girl.

Mar 21: Killing of man in Ballymena pub is thought to be sentence by anti-nationalist Ulster Volunteer Force on one of its own followers.

Mar 22: INLA says "tactical suspension of violence" is over; it is ready for "defence and retaliation".

A man was wounded in both legs in a so-called punishment shooting in Bangor, Northern Ireland, last night. Police said the man had been attacked in an area dominated by pro-British families

Equitas change could give Names extra safeguard

By Ralph Atkins, Insurance Correspondent

Lloyd's of London is drawing up proposals which could significantly improve the attractiveness of its ambitious recovery plan to Names worried that they will never fully escape big liabilities incurred at the insurance market.

The unpublished proposals, agreed with the Department of Trade and Industry in London, affect terms on which a reinsurance company, Equitas, will be set up to take responsibility for billions of pounds of outstanding US pollution and asbestos-related liabilities.

The scheme is understood to have influenced a "validation" report on Lloyd's recovery plan being compiled by the London law firm Slaughter and May on behalf of lossmaking Names. The long-awaited report, to be published at Easter, is expected to support the broad thrust of the Lloyd's proposals.

Equitas is an important part of the recovery plan which also includes a £2.8bn ($4.3bn) offer to lossmaking and litigating Names (individuals whose assets have traditionally supported Lloyd's) and is due to be implemented this summer.

It should allow Names, who are paying to set up Equitas, to sign one last cheque and leave Lloyd's. But many Names fear that if Equitas were at some stage unable to meet liabilities, their "unlimited liability" membership of Lloyd's would mean they would be pursued for extra funds.

To head off such fears, Lloyd's is understood to have agreed with its regulator, the Department of Trade and Industry, special arrangements which would come into effect if Equitas looked as if it might be unable to meet liabilities. Instead of the usual moratorium on individual payouts when insurers become insolvent, Equitas could continuing paying out a set percentage of the value of each claim. The hope is that, by continuing payments, policyholders would be dissuaded from exercising rights to pursue Names to make up the shortfall.

LLOYD'S
LLOYD'S OF LONDON

Although not unprecedented, the unusual nature of the "proportionate cover" plan is likely to raise eyebrows among other insurers. Lloyd's is expected to rebut suggestions that it has won special favours from the DTI, however. The "proportionate cover" plan is described as purely a contingency arrangement. "Even if Equitas' reserves were doubled, it would still be a sensible measure," said a Lloyd's insider.

British government authorisation for Equitas is expected next month, based on the assurances that it will have adequate reserves to meet foreseeable policy claims.

FINANCIAL TIMES
COMPANIES & MARKETS
Tuesday March 26 1996

IN BRIEF

Energy surge helps Tractebel rise 13%

Tractebel, the Belgian energy and engineering group, said strong increases in its gas and electricity businesses helped it increase 1995 profits ahead of expectations by 12.6 per cent, from BFr9.6bn to BFr10.8bn ($356m). Page 16

Commerzbank net income falls 7.2%
Commerzbank, one of Germany's leading banks, announced a doubling of its operating profits for 1996 to DM1.45bn and a higher dividend payment. However, net income was 7.2 per cent lower at DM979m, because the previous year's result had been swollen by the proceeds of asset sales. Page 16

SB chief gets $1.3m relocation expenses

Mr Jan Leschly (left), the Danish-born chief executive of SmithKline Beecham, was paid £850,000 ($1.3m) in relocation expenses when he moved from the UK to the US. The payment was entirely for the costs of moving and did not cover buying any property. The relocation expenses, paid in 1994, were disclosed in the company's annual report. The UK's second biggest pharmaceuticals company also disclosed that Mr Leschly was paid £1.8m for 1995. Page 21

Swiss group seeks cure in investment
Ares-Serono, the struggling Swiss pharmaceuticals group, stands at a crossroads. In 1992, net profits were $107m; last week, the group revealed profits of just $29.4m for 1995. Its hopes of a turnround lie with a $400m a year investment programme, due for completion in 1998. Page 17

Matsushita to take digital satellite stake
Matsushita, Japan's largest consumer electronics group, is to move into broadcasting by taking a 10 per cent stake in DirecTV Japan, the digital satellite broadcasting company which plans to introduce digital satellite broadcasts in Japan next summer. Page 18; TV venture hampers Wharf, Page 18

British Gas gambles in South America
British Gas, which has targeted South America as one of two regions central to its global expansion plans, is gambling its future there on three big, but highly risky, projects: a $900m gas pipeline between Argentina and Chile, a $2bn pipeline from Bolivia to Brazil and the search for oil in disputed waters around the Falkland Islands. Page 19

Morgan Crucible prepares for acquisitions
Morgan Crucible, the UK speciality materials and engineering group, said it was poised for further acquisitions in emerging markets such as east Asia and eastern Europe as it reported a 17.1 per cent increase in pre-tax profits in the year to January 4 to £85m ($130m). Page 20

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Linde	930	+	18
Porsche	830	+	23
SAP AG	209	+	7.4
Zanders Feinpp	113	+	8
Falls			
Hochtief	606	−	15
Thyssen	275	−	12.5
NEW YORK ($)			
Rises			
Renal Treat	27½	+	2¾
Simula	17½	+	2¼
Falls			
Ambar Intl	18¾	−	2¼
Coleman	48	−	4
Diana Corp	28	−	1⅞
Philips Elec	35¾	−	4¾
LONDON (Pence)			
Rises			
Ayrshire Metal	148	+	15
Manchester Utd	286	+	28
Falls			
Creighton Nat	65	−	10
Daniels (S)	40	−	10
Robert Wiseman	137	−	25
Tay Homes	131	−	14
TORONTO (C$)			
Rises			
Gaming Lottery	5¾	+	⅜
Veritas Energy	10	+	1½
Falls			
Budd Canada	19½	−	⅝
Golden Star	18¼	−	⅝
Greenstone Res	9½	−	¾
Softkey Sftwr	28	−	1⅝
PARIS (FFr)			
Rises			
Dollfus Mieg Cie.	273	+	12.2
Fonc Lyonnaise	600	+	35
Imm France	360	+	23
Immobanque	750	+	30
Lagardere	128.5	+	7
Valeo	271	+	19.5
TOKYO (Yen)			
Rises			
Calpis Food	745	+	38
Inax	1020	+	57
Mitsui Soko	900	+	47
Toshiba Plant	858	+	42
Yokohama Bk	790	+	35
Falls			
Mochida Pharm	1350	−	90
HONG KONG (HK$)			
Rises			
Television Brd	28.5	+	1.35
Falls			
Asia Sec Intl	2.525	−	0.325
China Assets	3.0	−	0.15
Kingmaker	0.75	−	0.24
Pico Far East	1.62	−	0.12
Rains Hldgs	1.63	−	0.12
BANGKOK (Baht)			
Rises			
Aokam Thai	27.75	+	2.5
Grammy	280	+	22
Interlink	50.5	+	4.5
Falls			
Kulthorn Kirby	45	−	5
Sri Charoen	75.5	−	4.5
Thai Sreshtork	88	−	4.5

New York and Toronto prices at 12:30.

Fuji Bank to write off housing loans

Lender rejects government request to abandon claims

By Gerard Baker in Tokyo

Fuji Bank, one of Japan's largest lenders, has decided on a taxable write-off of loans to the country's bankrupt housing loan companies in the financial year which ends this month. The decision, which departs from a government-proposed scheme for liquidating the seven companies, or "jusen", reflects a sharp difference of approach among the country's leading banks to the problem.

Officials said the bank, which is one of the founders of Housing Loan Service, one of the seven companies, would write off Y50bn ($476m) of bad loans to the jusen. But the losses would not be tax-deductible because Fuji was not prepared to abandon the rest of its claims on the jusen, as requested by the Japanese authorities.

The government is trying to push an unpopular liquidation scheme through parliament, involving the use of Y685bn in public funds. The plan involves write-offs by founder banks of their non-performing loans to the companies. The finance ministry has told banks that if they all abandon their claims to the housing lenders, they can write off tax-free their loans to the companies they founded.

Last week three leading banks, Sanwa, the Long Term Credit Bank of Japan and the Industrial Bank of Japan, announced tax-free write-offs on the basis that they were complying with the government's scheme by relinquishing their claims. But they suggested that if all the banks did not agree to the scheme, they would step back from a write-off of the bad loans, and instead make loan loss provisions.

Fuji Bank, which as a founder bank has fewer loans, appears to have calculated that it has less to gain from tax-deductible write-offs and more to lose from abandoning all claims, including potentially recoverable ones.

The government is anxious that banks take the losses as write-offs. Officials fear that if banks opt to build special reserves to cover the losses, popular opposition to the scheme would intensify.

The government's liquidation plans have been delayed by a parliamentary blockade organised by the main opposition party. Although the blockade was lifted yesterday, bank officials said that until the plan's outcome was clarified Fuji could not abandon all its outstanding lending to the companies.

Fuji has said it will write off Y550bn in bad loans in the current financial year, losses that are expected to produce a Y440bn pre-tax loss, its largest ever.

Supply shortfalls from eastern Europe and China have helped push up prices

Flat batteries help drive record demand for lead

Did your car battery fail recently? If it did, you are not alone in suffering this inconvenience. A long hot summer in 1995 in Europe and North America, coupled with two very cold winters in a row between 1994 and 1996, resulted in high levels of automotive battery failures.

It also caused record demand for lead because the main use for this metal today is for lead-acid batteries. In the US, 85 per cent of lead consumption is accounted for by battery makers. In the western world, 69 per cent of all refined lead produced goes into batteries.

Lead producers are struggling to keep up with the jump in demand. Global stocks have fallen to critical levels and London Metal Exchange prices have risen to their highest levels in nearly six years.

On top of that, the LME's lead market has been gripped by a ferocious technical squeeze and last week the board had to take emergency action to prevent "an undesirable situation" developing. Traders were taken by surprise on Thursday when Mr David King, the LME's chief executive, halted trading just after midday to announce that the cost of carrying over a short position in lead for one day was to be limited to $27 a tonne.

"This premium had been up to $40. Mr King said the lead market remained orderly but, because of the genuine tightness in lead supplies, "some constraints were necessary to keep it orderly".

Some traders complained that the LME's action had once again favoured those who had "gone short" of metal, or sold lead they did not own on the expectation that the price would fall and they could buy it later and pocket the difference.

Mr King insisted that he had no sympathy for the "shorts" but the LME had a legal duty to maintain an orderly market. It also owed a duty to the industries which used the market to hedge their risks. About 90 per cent of base metals industries use LME settlement prices and they expected those prices to reflect the fundamental supply-demand situation.

Those underlying fundamentals are certainly putting upward pressure on lead prices.

According to the International Lead & Zinc Study Group, an intergovernmental organisation, the present tightness in the lead market can be traced to big falls in output last year in China and Kazakhstan. Preliminary statistics from the ILZSG show Chinese production fell 12.4 per cent or 58,000 tonnes compared with 1994, while the drop in Kazakhstan was 29 per cent or 47,000 tonnes.

This resulted in a big drop in exports from eastern Europe. The CRU International metals consultancy estimates net exports fell 36 per cent, from a record 253,000 tonnes in 1994 to 161,000 tonnes. This contributed to lead consumption in the western world exceeding supply by 172,000 tonnes last year compared with a 38,000 tonnes surplus in 1994.

Most analysts suggest the tightness will continue. Mr Neil Hawkes at CRU, estimates the supply shortfall this year will be about 90,000 tonnes.

He points out that LME stocks are already below the critical level of five weeks' consumption and producers' stocks are usually low at this time of year.

Supply tightness has now been overlayed by a technical squeeze. This developed after merchants and investment funds moved some of their money into the lead market last month with the aim of driving the price of lead for delivery in three months on the LME to $800 a tonne. In mid-December, the price had reached a five-year peak of $746 a tonne but fell when the US hedge funds started selling at the begining of January.

The merchants and funds took a tight grip on stocks held in the LME-authorised warehouses in Helsingborg, Sweden, where about 80 per cent of total LME stocks were held.

They hoped that when the lead price reached $800 it would trigger a wave of buying by those commodity funds that use computer programmes and charts to track prices. This, in turn, could send lead up to $850 a tonne or higher. Last week, the three-month lead price was on the way, touching $828.50. But most of the pain was felt by those wanting lead for immediate delivery. The LME spot price reached $927.50 a tonne last Thursday, which meant buyers were having to pay a premium of $114 a tonne for immediate delivery. Prices have subsided a little since the LME intervened, but yesterday there was still a $25-$30 premium for immediate delivery.

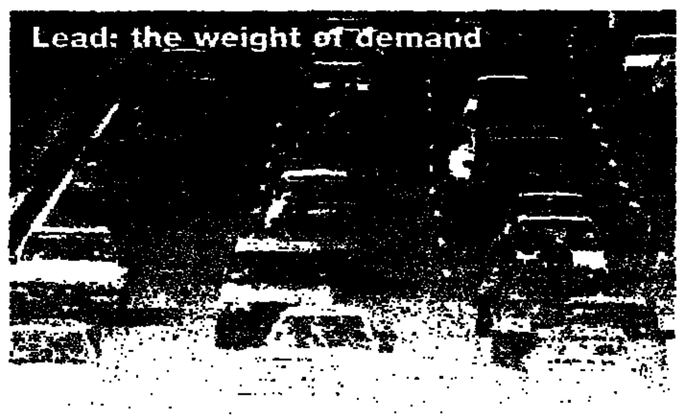
While technical tightness seems to be easing, the underlying lead supply shortage remains. CRU's Mr Hawkes says: "The key factor is the Chinese. Will they export more lead because of high prices? In the past they have flooded the market with refined metal at times like this."

And what does this mean for battery prices? Mr Angus MacMillan, research manager at Billiton Metals, a Gencor subsidiary, suggests that high lead prices would have to persist for a prolonged period to cause a substantial battery price rise.

"Battery producers should have hedged their lead requirements because they could see the squeeze coming a long time ago," he says. "Also, producers' battery stocks are high. Most important, there is over-capacity in battery production so the market is very competitive."

Kenneth Gooding

Lead: the weight of demand

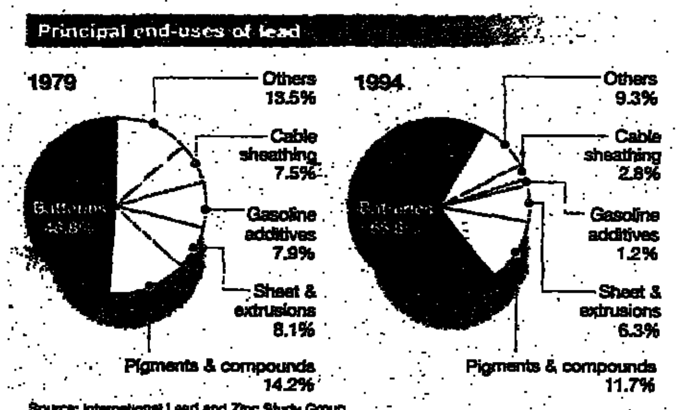


Supply and demand of refined lead

('000 tonnes)	1994	1995
Western world production	4,484	4,505
Western world consumption	4,761	4,881
Eastern European exports	253	161
US stockpile sales	62	43
Market balance	38	−172

Source: CRU International

Principal end-uses of lead



Source: International Lead and Zinc Study Group

Halifax to pay £800m for UK life group

By Alison Smith, Investment Correspondent

Halifax, the UK's largest building society, yesterday announced an agreed £800m ($1.2bn) deal to buy Clerical Medical in one of the largest acquisitions so far of a UK life assurer.

The agreement is likely to be Halifax's last takeover before it floats on the Stock Exchange to become a bank next year.

It is latest in a series of rationalisation moves in the UK life assurance sector and follows the purchase by General Accident, the composite insurer, of Provident Mutual late last year.

Several financial organisations had expressed interest in acquiring Clerical. They included National Westminster Bank of the UK, which was seen as front-runner, and Fortis, the continental European insurer.

Halifax's acquisition of Clerical, intended to take effect at the end of this year if Clerical policyholders approve, is part of Halifax's plan to become a broadly-based provider of personal financial services. It should enable Halifax to sell life assurance, pensions and investments through independent advisers. It will keep the Clerical brand name for that purpose. It already sells Halifax Life products through its branch network.

Mr Jon Foulds, Halifax chairman, said: "I think it very unlikely, for all sorts of reasons, that we'll make another acquisition before conversion."

Like other mutual life groups, Clerical believes in an increasingly competitive market it will need more access to capital than it would have if it remained owned by policyholders.

Mr Robert Walther, chief executive, said the increased financial strength from being part of Halifax would be used to lift investment in equities and so improve investment returns.

Halifax is contributing £730m to Clerical's with-profits life fund – of which £590m is for 10 per cent of future with-profits bonuses and the embedded value of non-profit businesses – and a further £70m as shareholders' capital. The payment will be in cash, and the society said it would have very little impact on its capital ratios.

Halifax was advised in this deal by SBC Warburg, although Warburg has lost its role in the society's flotation. Clerical was advised by Schroders.

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Shares in French property bank fall on fears of big loss

By David Buchan in Paris

Shares in Crédit Foncier de France (CFF), the French property bank, yesterday closed more than 6 per cent down at FFr72.80, following reports that it would show 1995 losses ranging from FFr3bn-FFr8bn ($592m-$1.6bn) after having to make large provisions.

CFF, which is to approve and publish its 1995 accounts on April 3, refused to comment on reports in the Libération and Agefi newspapers that the bank was in emergency negotiations with the French finance ministry about possible solutions. These are reported to include the state hiving off some of the bank's loans, recapitalising it, or allowing it to be sold to another bank.

CFF is a private bank quoted on the Bourse, but its management is under the control of the government, which until recently allowed it a monopoly on certain types of housing loans. This monopoly was recently removed, aggravating the problems caused by a decline in the value of its property investments.

The bank was recently given a short-term FFr20bn-FFr25bn credit line by the state-owned Caisse des Depôts. Also, Paribas has been called in to advise Mr Jerôme Meyssonnier, the president, who was nominated by the government in January to replace Mr Jean-Claude Colli.

CFF's biggest single liability is said to lie in its subsidiary, Immobilière Foncier Madeleine, which has made property investments in Paris, London, Madrid and Barcelona that are believed to be worth little more than half their FFr5.5bn book value.

The new management is said to want to take heavy provisions for last year, but this could endanger the bank's solvency ratio unless the government injects capital or puts non-performing investments and loans into a special vehicle as it did for Crédit Lyonnais or Comptoir des Entrepreneurs.

The government is understood to be reluctant to approach the European Commission for permission to bail out another bank, after it made a succession of rescue plans for Crédit Lyonnais. Libération yesterday cited Bayerische Vereinsbank, the German mortgage bank, as a possible candidate to take over CFF if no domestic solution is found.

CFF's unions have pressed the government to take over the bank's doubtful loans and investments, and plan a demonstration on Friday to coincide with a meeting that CFF executives are due to hold with Mr Alain Juppé, the prime minister.

Belgacom improves to BFr10.7bn

By Neil Buckley in Brussels

Belgacom, the partially-privatised telecommunications company, increased net profits in its final year of full state ownership from BFr9.7bn to BFr10.7bn ($353m).

The 1995 results are the first announced since a consortium headed by Ameritech, the US telecoms company, and including Tele Danmark and Singapore Telecom, paid BFr73.3bn in December for 49.9 per cent of Belgacom. The deal is the most ambitious move by a west European government to find a strategic partner for a state telecoms company.

The Ameritech-led consortium beat a joint rival bid from KPN, the Dutch telecoms group, and Swiss Telecom. The Belgian government hopes the consortium will pull Belgacom into shape in time for liberalisation of telecoms in the European Union in 1998. It sees the sale of the stake as the first step towards a stock market flotation.

A shake-up of the executive directors resulting from the privatisation means the new board will not meet to ratify the results until next month, so yesterday's figures are unaudited. But they show consolidated turnover up 8.6 per cent at BFr127.1bn, close to the BFr128bn the company predicted in January.

This reflects a 2.3 per cent increase in fixed telephone connections, to 4.6m, and an increase in mobile phone customers from 127,000 to 235,000. Belgacom said there had been a large increase in the penetration of ISDN telephone services and in overall telephone traffic. Subscription fees had also increased.

Operating expenses had been reduced, with staff numbers down slightly to just below 26,000. Operating profits increased 28 per cent from BFr16bn to BFr20.5bn.

Acquisition of the stake has given Ameritech a foothold in Europe, and a plum European location, home to many multinational company headquarters. But the consortium partners now face the delicate task of a restructuring programme, expected to lead to further staff cuts.

Belgacom employees took to the streets in December to protest about the threat of job cuts.

Tractebel beats forecasts with 12% increase

By Neil Buckley in Brussels

Tractebel, the Belgian energy and engineering group, said strong growth in its gas and electricity businesses helped it increase 1995 profits by 12.6 per cent, from BFr9.6bn to BFr10.8bn ($356m).

The figures – which are better than expected – exclude an extraordinary profit on financial transactions in 1995 of BFr505m, despite a BFr1bn write-down in the value of Tractebel's shareholding in Eurotunnel, the Channel tunnel operator.

Consolidated turnover increased 8 per cent, from BFr298bn to BFr322bn. Total investment increased to BFr61bn, more than half of it outside the regulated Belgian gas and electricity industry, as Tractebel sought to increase the international spread of its businesses and reduce reliance on Belgium.

In its Belgian electricity business, Tractebel lifted sales of electricity for distribution by 2.6 per cent. Sales to direct customers in the first two quarters were strong, but a downturn in the final quarter of 1995 had continued into this year. Total electricity sales for 1995 increased 3.3 per cent.

The international electricity and gas arm continued its expansion through the acquisition of CRSS, the US power producer, power stations in Hungary and Chile, and developments in Italy, India and Kazakhstan.

It also won a project to construct a gas pipeline network to supply industries on the outskirts of the Thai capital Bangkok.

Distrigas, the Belgian gas business, hopes to benefit from its 5 per cent stake in Interconnector, which is preparing to build a link between the UK and continental gas grids. Distrigas is preparing to upgrade its own network to carry more gas to other countries.

Coditel, the cable operator, suffered a setback when its Voditel consortium with Vodafone failed to win the second GSM licence offered by the Belgian government, but Tractebel said Coditel was still expanding its stakes in cable TV and mobile phone services abroad.

Fabricom, the engineering group, acquired several industrial pipework companies in France and the UK, as well as extending electrical installation activities in France, and expanded into waste management in Belgium.

But the real estate business, Compagnie Immobilière de Belgique, reduced its development activities in a depressed property market.

The company is proposing a net dividend of BFr370 a share, up 4.2 per cent from BFr355 the previous year, with earnings per share up 5.7 per cent from BFr778 to BFr823.

Commerzbank declines despite operating surge

By Andrew Fisher in Frankfurt

Commerzbank, one of Germany's leading banks, yesterday announced a doubling of its operating profits for 1995 and a higher dividend payment. However, net income was lower because the previous year's result had been swollen by proceeds from asset sales.

Operating profits were 109 per cent higher at DM1.45bn ($982.9m). The bank will pay a dividend of DM13.50 a share, compared with the previous DM12, though this was enhanced by an extra DM1.50 distribution to mark the 125th anniversary. The payout will cost the bank DM520m, a 15 per cent rise on last year's dividend cost.

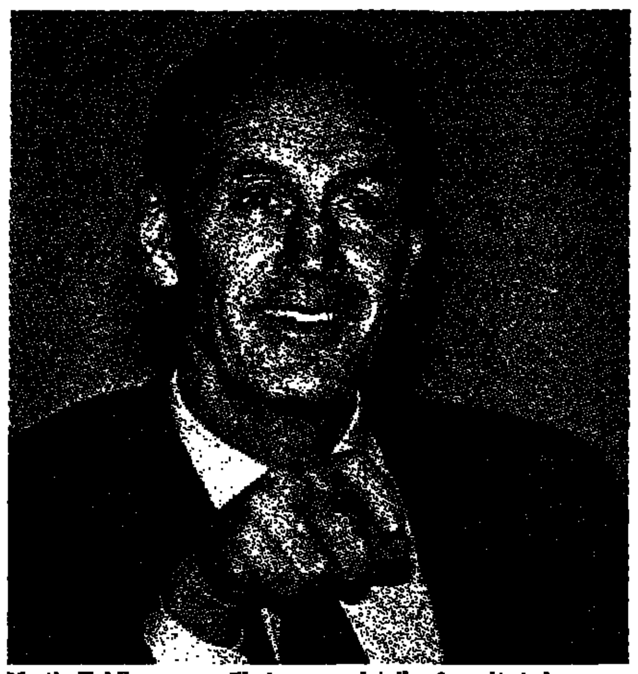
The bank produced only the minimum of figures after yesterday's supervisory board meeting. Corporate results are now announced as quickly as possible in line with strict disclosure requirements on potentially market-moving news. Chairman Mr Martin Kohlhaussen will give more details at the bank's annual press conference this morning.

Net income was 7.2 per cent lower at DM979m, reflecting the absence of the previous year's earnings on its sales of certain shareholdings (in Karstadt, the store concern, and DBV insurance) in 1994. Also, the bank spent heavily on its anniversary activities. It will put DM400m, against DM600m last year, into its revenue reserves.

The results bear out the trend at the nine-months stage, when operating profits also more than doubled but pre-tax income was lower. The 1995 figures benefitted from the absence of the previous year's bond portfolio write-downs – other provisions were also made in 1994 to soften the tax impact of the asset sales – and from much higher financial trading profits.

The bank gave no details yesterday about risk provisions, having cut these sharply in the January-September period after the bond market improvement. Nor did it comment on the possible impact of its involvement with Fokker. The bank arranged bond issues for the bankrupt Dutch aircraft company – Daimler-Benz, which has a large minority holding, ceased support in January – and investors have been concerned about how much it has on its books.

Commerzbank has recently been embarrassed by highly-publicised tax raids on its head office in Frankfurt and other branches as authorities have sought possible evidence of help in the transfer of customers' funds to Luxembourg to evade taxes. The bank denies any wrongdoing.


Martin Kohlhaussen: will give more details of results today

Daewoo lets Steyr-Daimler-Puch plan lapse

By John Griffiths

A letter of intent signed by Korean carmaker Daewoo to buy a majority stake in Steyr-Daimler-Puch, the Austrian vehicle engineering group, has expired without the deal being completed.

Under a letter of intent signed last October, Daewoo was to have acquired 65 per cent of Steyr-Daimler-Puch's shares from Creditanstalt, the Austrian bank.

A joint statement said Steyr-Daimler-Puch had not been able, in the short-term, to offer the capacities Daewoo wanted, particularly in research and development. It also cited "industrial reasons" for Daewoo withdrawing but said collaboration on some existing engine projects would continue.

Daewoo's decision to let the intended acquisition lapse is in line with an alternative plan it has adopted to buy Group Lotus, the UK sports car and engineering concern.

The Korean company is understood to have signed a letter of intent to buy Lotus in mid-February, although so far it has neither confirmed nor denied doing so.

Lotus has also denied any knowledge of an agreement with Daewoo, although it has acknowledged that talks have been going on with "potential investors".

The precise ownership of Lotus remains a subject of confusion. Italian entrepreneur Mr Romano Artioli, who set up "super-car" maker Bugatti Automobili, also bought Lotus from General Motors two years ago.

Bugatti Automobili was declared insolvent last year. Since the bankruptcy declaration, Mr Artioli's lawyers appear to have sought to ensure Lotus's separation from Bugatti and a Luxembourg-based holding company which was also believed to control Lotus.

● Saab Automobile, the Swedish automotive group jointly owned by Sweden's Investor and US General Motors, planned to develop a new small car which would be presented at the beginning of the next century, said Mr Keith Butler-Wheelhouse, the company's chief executive, Reuter reports from Jonköping, Sweden.

The car would be smaller than the company's 900 series, he told reporters at the Fourth Nordic Automotive Conference.

Saab planned to increase production to around 150,000 cars annually by the year 2000, he added.

"At that level [150,000 to 200,000] Saab can make a positive contribution to GM's results," Mr Butler-Wheelhouse said.

Last year, Saab manufactured 98,700 cars and this year's target is 105,000 units.

Rise in sales outside Italy lifts Marzotto

By Andrew Hill in Milan

Strong growth in sales outside Italy helped Marzotto, the Italian textile and clothing group, to increase net consolidated profit in 1995 from L26.2bn to L50.1bn ($32m), slightly ahead of market expectations.

Marzotto, which controls Hugo Boss, the German men's fashion company, has now restored profit to the levels of 1989–90, before a slump in the Italian clothing market cut away at its domestic income.

The Italian clothing operations returned to profit in 1995, after two years of losses, but Marzotto said the Italian market was still stagnant. Sales in Italy slipped 0.5 per cent, also hit by a "severe drop in demand" for Marzotto's linen yarns, while sales abroad grew 19 per cent.

In the 12 months to December 31 1995, overall turnover grew nearly 12 per cent, from L2,111bn to L2,357bn, less than a third of which is generated in Italy.

Analysts said yesterday that with the Italian currency growing stronger, Marzotto could be hard-pressed to repeat last year's sales growth outside Italy. However, the company said that even if demand remained weak abroad, the group would aim to increase sales by improving its service to customers, and the quality of its products, playing on the reputation of Italian-made clothes and fabrics.

The parent company, which registered a net profit of L28.7bn in 1995, against L10.5bn the previous year, proposed a dividend of L230 for each ordinary share, compared with L180 in 1994. Convertible savings shares will pay a dividend of L250, against L200, and non-convertible savings shares L290, against L240.

Marzotto said that net financial debt had also increased during 1995, from L477.4bn to L549.4bn, because of a sharp increase in investment expenditure, including the purchase of more preferred shares in Hugo Boss.

The acquisition of Hugo Boss shares took Marzotto's stake in the combined preferred and ordinary capital of the German group to more than 50 per cent. Marzotto bought a 77.5 per cent stake in Hugo Boss in 1991, and now owns 22.4 per cent of the preferred shares. Hugo Boss, which has been expanding sales and production outside Germany, increased net profit 11 per cent to DM58m.

Marzotto's shares are quoted in Milan and about 53 per cent of its capital is owned by descendants of the Marzotto family, which founded the company more than 150 years ago in Valdagno, north-east Italy.

NEWS DIGEST

BASF 'aims to hit DM4.23bn' in 1996

BASF, the German chemicals group, said it planned to achieve a 1996 pre-tax profit of DM4.23bn ($2.87bn), up from DM4.13bn in 1995, according to a report to be published in the April edition of Capital magazine. A 4.6 per cent rise in sales to DM48.47bn has been targeted, up from DM46.23bn a year earlier, the magazine said. Internal operating profits should remain stable at about DM3.5bn, the report said.

BASF said its chemicals division should report an internal operating profit of DM1.425bn, down from DM1.95bn a year earlier, while the plastics and fibres division is expected to post a 1996 internal operating profit of DM1.14bn, down from DM1.245bn, the magazine reported. The health and nutrition division should have an internal operating profit of DM614m, up from DM273m in 1995, and the dyestuffs and finishing products division should achieve profits of DM544m, up from DM243m last time.

The oil and gas division is expected to have an operating profit of DM312m, up from DM86m, while BASF's information systems division is seen posting a profit of DM64m, after a loss of DM92m last year. According to plan, BASF's other business should return a 1996 loss of DM599m, compared with a loss of DM205m a year earlier. BASF plans to invest about DM3.2bn in fixed assets this year and DM2.18bn in research and development.

AFX News, Frankfurt

Rheinmetall back in the black

Rheinmetall, the privately-owned German arms and engineering group, yesterday reported an operating profit for 1995, following two years of losses, and said it would move more production abroad in order to improve its competitiveness.

The group, which is part of the Röchling Industrie holding company, said sales last year had increased 5.7 per cent to DM3.4bn ($2.3bn), driven mainly by better results at the Pierburg automotive components and the Rheinmetall arms divisions. The Jagenberg engineering unit, however, reported a net loss because of difficulties at its paper technology arm, which makes up about 60 per cent of Jagenberg sales. Prices remained lower than expected last year had seen an "unexpectedly high rise in wage costs," the group said.

In an effort to avoid the higher production costs in Germany caused by the steadily appreciating D-Mark and high wage settlements, the group said that by 1998 it hoped to double its production capacities abroad to about 25 per cent of total production. Group new orders in 1995 rose 4 per cent over those a year earlier while new orders in January and February rose 44 per cent over the same period a year ago.

Michael Lindemann, Bonn

Renault suffers decline in Spain

The Renault group's listed Spanish carmaking subsidiary saw pre-tax profits drop 64 per cent last year from Pta4.65bn to Pta1.69bn ($13.6m), blaming the fall on a manufacturers' price war. Mr Jean-Pierre Laurent, head of Renault's commercial operations in Spain, attacked rival French group PSA Peugeot Citroën for a recent campaign offering discounts of up to Pta400,000 on Citroën cars, and said the price war had reached "the limits of the tolerable". He described competition in the Spanish market, where overall car sales fell 8 per cent last year, as "the toughest in Europe".

Car production at Fasa Renault, which is the French group's largest foreign manufacturing subsidiary, held roughly stable at 361,000 units, with more than 70 per cent going to export. Turnover rose 8 per cent to Pta671bn, thanks to an increase of almost 15 per cent in export revenues. Its sales in the domestic market fell 3 per cent to Pta233bn. The company, about 90 per cent owned by the French state-controlled group, planned to invest Pta100bn over the next three years, chairman Mr Juan Antonio Moral said.

David White, Madrid

ABB acquires Maritime Seanor

ABB, the Swiss-Swedish engineering group, is expanding its oil and gas business with the acquisition of Maritime Seanor, a Norwegian company specialising in floating and underwater production systems. ABB is also buying control of Maritime's stakes in two other oil and gas equipment companies – JP Kenny of Stavanger and Koomey, with offices in Houston, Aberdeen and Singapore. The three companies together employ more than 150 and have annual sales of about $50m.

ABB, which claims a 30 per cent world market share in subsea equipment for oil and gas fields, said yesterday the market was growing rapidly due to technological advances. It was possible now to exploit previously uneconomic fields. About $2bn of ABB's $36bn turnover last year came from the oil, gas and petrochemical industries.

Stefan Wagstyl

Laboratory success the key to curing Ares-Serono's financial ills

The struggling Swiss drugs group is pinning its hopes for a turnround on biotechnology investment, writes **Thierry Meyer**

Ares-Serono, the struggling Swiss pharmaceuticals group, stands at a crossroads. In 1992, net profits were $107m; last week, the group revealed profits of just $29.4m for 1995. In addition, the group, with market capitalisation of just $2bn, remains a small participant in a rapidly consolidating industry.

The Geneva-based company's problems include a shortage of raw materials for its infertility treatment; the need to invest heavily in biotechnology; and a sales collapse in Italy – one of its most important markets – following healthcare reforms there.

Earlier this month the group suffered another disappointment when a US Food and Drug Administration advisory committee refused to recommend one of its drugs, Serostim, for the treatment of weight loss in Aids patients.

Such problems would daunt the most experienced management. But the man in charge at Ares-Serono, Mr Ernesto Bertarelli, the deputy chief executive, is just 30.

Although he first attracted public attention when he returned from Harvard two years ago to assume control of the family-run Swiss pharmaceuticals group, Mr Bertarelli is best-known in Geneva as a playboy.

Much of his fame has stemmed from yachting: in June 1994, he capsized on the finish line of Le Bol d'Or, Lake Geneva's most famous race. He then built himself a SFr1m ($837,871) all-carbon trimaran to win the next season.

"The key for Ares-Serono's future lies in the hands of Mr Bertarelli," says Mr Ian Broadhurst, analyst at BNP in London. "The question is whether he is capable of succeeding his father. Until he is really alone in charge, we won't have an answer."

His father, Fabio, is renowned as an exceptional businessman, but has retired from his executive position.

Serono was created in northern Italy in 1906, as a small pharmaceutical laboratory. It was Mr Fabio Bertarelli who, as the new owner, moved the renamed Ares-Serono to "safer" Switzerland in 1975. He subsequently transformed the small pharmaceuticals laboratory into a multinational drug manufacturing group.

Ares-Serono – which specialises in infertility treatments and immunology – intends to become a manufacturer based on biotechnology. It still relies on non-biotech drugs, but Mr Bertarelli said last week he expected 90 per cent of group sales to come from recombinant products by the end of the decade.

This has required heavy investment, which the company budgeted at $400m until completion in 1998. Among the investments is a new SFr275m plant in Switzerland.

The strategy appears sound, but doubts remain about implementation. In 1994, the results were hit by a collapse of the Italian market: after healthcare reforms, the group's best-selling medicine, Metrodin-HP, an infertility treatment, was no longer reimbursed by the state. Ares-Serono claimed it lost $110m in sales.

Last year's troubles were linked to the company's difficulty in finding the 50m litres of urine it needs every year from menopausal women to extract an infertility treatment hormone. Hence the importance of introducing Gonal-F, Ares-Serono's first biotech drug.

This infertility treatment, produced in mammalian cell cultures, is a genetically engineered version of the hormone that stimulates the development of ovarian follicles in women. It will replace Metrodin-HP, and cost less to produce.

Ares-Serono is a world leader in infertility treatment, but the group's other therapeutic areas are highly competitive. In multiple sclerosis treatment, it has launched a vast, costly clinical testing programme involving more than 1,000 patients.

Competitors in this market, however, have struck earlier: Schering of Germany has launched a product, and Biogen, the US biotech group, has just received a recommendation for its drug from a US Food and Drug Administration advisory committee.

"It's good news for us, though," says Mr Christophe Lamps, Ares-Serono's corporate communications director. "Biogen's product is very close to ours, and they will pay us royalties."

"Timing will be critical," says Mr Michael Sjoestroem, drugs sector analyst at Pictet & Cie, the Geneva private bank. Gonal-F has been approved. But the other new products must be launched soon – before drugs from bigger rivals with greater marketing muscle – if they are to be successful, he says.

Some believe the group could prove a big turnround story. Optimists believe the multiple sclerosis treatment, as well as Serostim and Gonal-F, could reach estimated peak sales of $500m each a year.

"Ares-Serono sales will exceed $1bn in 1997," according to Mr Jean-Philippe Tripet, analyst at private Geneva bank Lombard, Odier & Cie's Zurich office. "I see no other such success in the biotech industry apart from Amgen, the Californian company, whose capitalisation has risen from $50m in 1992 to $17bn today."

"But even with a good range of new products to come, Ares-Serono will have to ask itself what to do with the cash," Mr Sjoestroem says. He suggests that an even broader range of drugs will be needed to assure the company's long-term future.

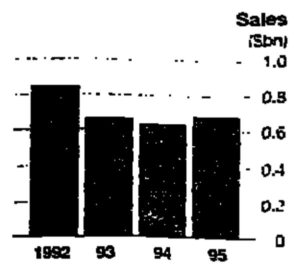
Even then, problems would remain. "The low quantity of shares held by the public – less than 20 per cent – remains Ares-Serono's most serious handicap," says Mr Sjoestroem. "A whole category of investors is unwilling to buy when there's no volume."

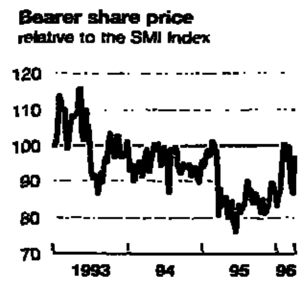
Analysts believe the liquidity issue must be addressed by the Bertarelli family, which will eventually reduce its shareholding but insist on retaining a majority.

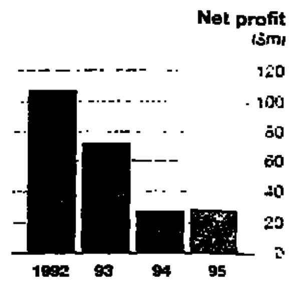
Ernesto Bertarelli: analysts say group's future lies in his hands

COMPANY PROFILE:
Ares-Serono

Market capitalisation	$2.01bn
Main listing	Zurich
Historic P/E	103
Gross yield	0.33%
Earnings per share	SFr 11.38
Current share price	SFr 903



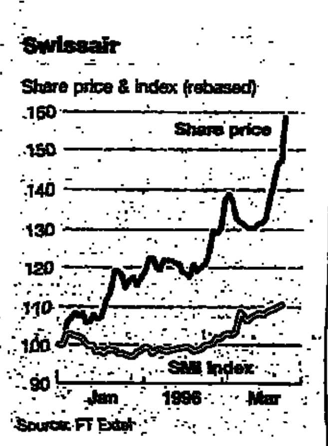




Source: FT Extel

Swissair follows long haul with vertical take-off

The recent jump in the carrier's share price was recognition of tough cost cuts



Source: FT Extel

Swissair, the national carrier, has become the high-flying success story of the Zurich stock market as a long-running restructuring programme at the core and associated businesses has borne fruit.

The liquid registered shares jumped 19 per cent last week alone, taking their rise since the start of the year to 58 per cent. The recent surge has taken the shares above their previous high of mid-1989, after which the price toppled.

Swissair has travelled a long way since the dark days of the early 1990s. In 1993, the shares reached a low of SFr400 by as the airline suffered from the sector's overcapacity and a high domestic cost base, exacerbated by the strength of the Swiss franc. Swissair also had to deal with the recession in Europe, by far its largest revenue base, and the liberalisation of air traffic in the European Union. Moreover, Switzerland's vote against EU membership in December 1992 left the airline looking isolated, compounding its problems.

The journey back was a slow and painful affair. The foundations of the company's turnround were laid in 1991, with a restructuring of the catering and hotels activities. Savings were, however, insufficient to outweigh rising costs in the core airline activities.

Signs of a pick-up in the airline operations emerged last year, as the company cut its charter activities, shifted capacity to Crossair – the low-cost regional carrier in which Swissair has a 62 per cent stake – and launched a cost-cutting programme, including 800 redundancies, aimed at boosting profits by SFr500m ($416m) a year.

The purchase last May of a 49.5 per cent stake in Sabena, the Belgian carrier, was another important step, allowing the Swiss airline savings through economies of scale and fleet rationalisation. It also provided an international "hub" – Brussels – for the airline in the EU.

Late last year came a change of top management at Swissair with the appointment of Mr Phillipe Bruggisser as chief operating officer. Mr Bruggisser, a former banker, has been largely credited with the turnround of the hotels and catering business.

More important, he is regarded as an excellent communicator and his appointment came as talks with the well-paid pilots on SFr61m of planned savings were becoming bogged down. His arrival raised hopes that Swissair would achieve cost savings without the industrial conflict suffered by other airlines.

Last week's share price rise came as Mr Bruggisser told analysts a further 1,200 redundancies were planned, confirming the view among shareholders that the company was determined to take tough measures to unlock shareholder value.

Mr Guy Kekwick, at Lehman Brothers, sees Mr Bruggisser as someone who can inject life into the still-flagging core business. He estimates the share is trading at 90 per cent of book value, up from about 50 per cent at the airline's darkest hour, but compared with, for example, KLM at 120 per cent. Mr Kekwick believes the share price could rise another 10-15 percentage points.

But while Mr Frederick Hasslauer, at Bank Sal Oppenheim in Zurich, accepts the catering, hotel and airport retailing business have been sharply undervalued, he believes future cost-cutting is already largely in the share price. "We think that the share will continue to appreciate but the recent tempo of the rise cannot be repeated."

Michael Morgan

COMPANIES AND FINANCE: ASIA-PACIFIC

Matsushita to buy stake in satellite broadcaster

By Michiyo Nakamoto in Tokyo

Matsushita, Japan's largest consumer electronics group, plans to move into broadcasting by taking a 10 per cent stake in DirecTV Japan, the digital satellite broadcasting company.

This is the first time a Japanese consumer electronics company has taken a large stake in a broadcasting company. The move also highlights the transition to digital technology that is taking place in the consumer electronics industry.

DTVJ plans to introduce digital satellite broadcasts in Japan next summer. The company is 42.5 per cent owned by Hughes Communications, a unit of Hughes Electronics of the US, and 42.5 per cent by Culture Convenience Club, a *Japanese video rental company*. The remainder is owned by other Japanese companies.

DTVJ hopes to benefit from Matsushita's technology and its vast retail network in Japan.

Matsushita yesterday emphasised that its investment was primarily a way of entering the broadcasting business.

Matsushita has made several investments in cable TV companies but these have been much smaller than the DTVJ deal, although the value of its investment in DTVJ – which plans to make a substantial capital increase by the end of the year – is unclear.

Matsushita last year sold its majority stake in MCA, the US entertainment group, which it had acquired in 1990 amid much controversy. The sale was an embarrassing admission that its strategy of seeking to expand hardware sales through control of a software company had failed.

However, its latest plan to seek a foothold in the broadcasting industry is seen as a more astute strategy in the context of the switch to digital technology in the consumer electronics industry.

"The launch of digital video discs will bring digital technology into the home in a major way for the first time," said Mr Hideki Watanabe, industry analyst at Nikko Research Centre in Tokyo. The CD-sized discs, which can play back high quality digital video, will be introduced later this year in Japan.

Broadcasting is also moving towards digital technology with the launch of the first digital satellite broadcast services in Japan by PerfecTV later this year.

The move could encourage other consumer electronics companies to follow suit. Sony, which has also made small investments in broadcasters, said it would be interested in *taking up such opportunities* in the industry as digitalisation increased.

TV venture hampers Wharf

By Louise Lucas in Hong Kong

The Wharf (Holdings), the Hong Kong property and infrastructure conglomerate, yesterday reported a 22.9 per cent drop in operating profits from HK$2.59bn in 1994 to HK$1.99bn ($257m) last year.

The group was hit by deferred property sales because of the weak market and by the continued drain on earnings at its cable TV operations.

The total start-up operating deficit on the colony's pioneering cable TV system last year was HK$824.8m, including an additional provision of some HK$180m for equipment *upgrades. The government last* week extended Wharf Cable's exclusive licence by two years, in a bid to protect its financial viability.

As Wharf announced its results, judgment was delivered on the group's court challenge to the government over its decision to allow Hongkong Telecom to proceed with video-on-demand (VOD) commercial trials during Wharf's exclusive franchise.

Wharf was hoping to have VOD reclassified as a broadcasting service, and to be regulated as such, but the High Court delivered another blow to the company by deciding VOD was not a broadcasting service.

Wharf's net earnings, up 16.3 per cent from HK$3.1bn to HK$3.6bn last year, were boosted by a HK$1.89bn exceptional item relating to the sale of Singapore-listed Marco Polo Developments, a property and hotel group. The results were lower than market expectations, mainly because of the TV losses.

Mr Kendal Law, analyst with Barclays de Zoete Wedd in *Hong Kong, said: "Now they* have written off some of the costs, the key is subscriber numbers. Wharf says it has 200,000 customers but the issue is the churn rate, which has been as high as 40 per cent. Now Wharf says that figure is down to 2 per cent a month, which is still quite high."

Market calculations put the number of subscribers at 170,000. Wharf's problems with cable concerned technology, programme quality and marketing, and the operation is not expected to break even until 1998. Mr Law notes this is partly due to Wharf's policy of being both the deliverer and producer of programmes.

Wharf has invested some HK$4.5bn in cable TV and its telecoms company, New T&T, which shares the same fibre optic ducts and sheaths.

New T&T, which won one of the three new fixed-line licences last July, began marketing its services this year and so far has signed up only a small number of commercial customers, many of which involve thousands of lines.

Mr Gonzaga Li, chairman *and chief executive of Wharf,* said the results were "particularly gratifying" given the tough business environment in Hong Kong last year.

But analysts reckon Wharf will have another flat outcome this year in terms of property investment and will only see a significant pick-up in 1997-98 when new developments come on line.

The dividend is lifted 10.96 per cent, from 73 cents to 81 cents.

NEWS DIGEST

Westfield considers airport investments

Westfield, the Australian property developer which has specialised in the shopping centre market, is teaming up with the US-based Airport Group International to look at investment opportunities resulting from the privatisation of Australia's airports. AGI, in turn, is owned by Lockheed and Soros Capital, Mr George Soros's group.

The impending privatisation *has attracted* several interested parties. Lend Lease, the Sydney-based financial services group, linked with Brambles, the Australian transportation group, to form a potential bidding consortium. BAA of the UK has joined forces with two big local institutional investors, in another consortium, known as Australia Pacific Airports. Other European operators, including Schiphol and Aeroports de Paris, are also believed to be interested.

Details of how the privatisation will proceed following the change in Australia's federal government this month have yet to be clarified. Last week, Mr John Sharp, the new transport minister, indicated that Melbourne, Perth, Brisbane and Adelaide airports were likely to form the "first tranche" of sales, with Sydney possibly delayed for up to three years while noise problems are dealt with. The first-tranche sales would take place "as soon as possible" – probably this year – and smaller airports would come later. *Nikki Tait, Sydney*

Henderson IPO oversubscribed

Henderson Land, the latest Hong Kong developer to spin off its China interests in a separate listing, yesterday said the HK$178.66m (US$23m) initial public offering was 3.4 times subscribed, as a result of which the number of public shares is being lifted from 8.31m to 11.8m. Another offer of 2.15m preferential shares was also oversubscribed, the company said.

In total, Henderson China, the newly-created China property concern, issued 69.77m shares at HK$21.50 each. Of these, and apart from the 2.15m preferential shares, 8.31m were to have *been sold to the public, and the balance placed with* professional investors. The additional tranche, to meet public demand, means the amount offered to institutions will be scaled back to 55.81m shares. The proceeds of the issue are expected to eliminate debt at the new company. *Louise Lucas, Hong Kong*

Revamp at Thai oil group

Petroleum Authority of Thailand (PTT), Thailand's state-owned oil company, announced a corporate restructuring yesterday, including stock market listings for three newly created-subsidiaries. PTT has been split into four broad divisions: exploration, production and gas; refining; downstream oil; and petrochemicals. Each of these will be responsible for management supervision of subsidiary companies and PTT's extensive shareholding stakes in joint-ventures with the private sector.

PTT said one of principal reasons for seeking more public *listings was to help the organisation become "self-financing"* while making the huge investments needed to meet Thailand's energy needs. Energy demand is expected to increase at more than 8 per cent annually for the next five years, according to BZW Securities.

One of the new subsidiaries, PTT Gas, to be controlled by PTT's exploration, production and gas division, will apply for a stock market listing by the end of this year, PTT officials said. Another subsidiary of the same division, PTT E&P sold shares to the public in 1993. PTT's Downstream Oil will control the other two new subsidiaries, PTT Oil and PTT International. Their public offerings are likely to come in 1997. PTT is likely to retain a majority stake in the three new subsidiaries. *Ted Bardacke, Bangkok*

Dogfight offers preview of business battles

Rivalry in Hong Kong's aviation sector highlights problems ahead of 1997 handover

A preview of one of Hong Kong's most important business battles can be glimpsed in the employment pages of the local press.

Dragonair, the territory's small but thrusting carrier, has been searching for staff. So has CNAC, the airline arm of China's Civil Aviation Authority, which is planning to launch services from Hong Kong.

Both are eyeing the markets *for southern China, one of the* fastest-growing regions of the world. But the looming dogfight shows more than the attractions of the local aviation sector. It reveals how Hong Kong's handover to China next year is complicating business strategies, posing a tough challenge for incumbents and testing the tactics of newcomers.

Dragonair itself is a mix of the two. Founded in 1985 by a group of investors and Mr Steven Chao, the textiles magnate, it struggled to expand until 1990, when a majority stake was seized jointly by Citic Pacific, the Hong Kong arm of China's main investment vehicle, and Cathay Pacific, a subsidiary of Swires, the UK-controlled conglomerate.

Since then, the carrier has established itself as the preferred choice of businessmen flying into China and as a profitable operation. Last year's profits are estimated at more than HK$700m (US$90.5m), a healthy return on the 14 routes it flies to China along with regional destinations from Bangladesh to Japan.

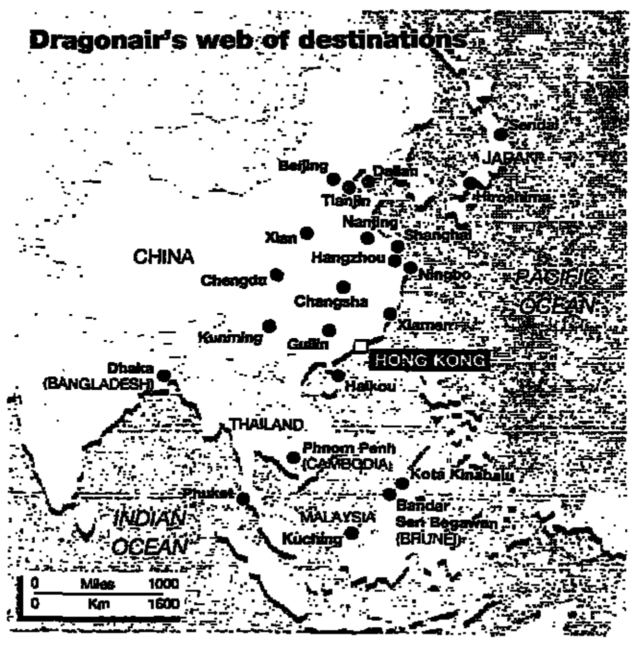
Success, however, has fuelled the problems facing Dragonair. Drawn by the fast-growing market, CNAC has applied for an air operator's certificate in Hong Kong. If granted – and aviation sources believe approval could come within weeks – CNAC would be able to operate charter flights from Hong Kong and would move a step towards a licence for scheduled services.

The company's ambitions and its Beijing connections have already put the brakes on Dragonair's ambitions. "Dragonair is finding it tough to get new capacity on existing routes and to add new routes," says Mr Koo Zayong, aviation analyst at CS First Boston in Hong Kong. Profit growth slowed markedly last year, reflecting the constraints being placed on the carrier.

The turbulence is becoming even greater around the shareholding structure of the company. Wary of a mainland rival setting up in Hong Kong, particularly one tied to China's aviation authority, Cathay has sought to assuage CNAC's appetite by selling it a stake in Dragonair. "There have been *discussions and there will be* discussions. I have no doubt," says Mr Peter Sutch, chairman of Cathay and Swire Pacific.

Despite the failure of previous talks, the strategy might prove successful. But industry analysts believe CNAC will only be satisfied with a significant stake in Dragonair and that it has already signalled a firm intention to establish its own operation.

"They are a fair way down the road," says one aviation consultant, pointing to the leasing of aircraft and the hiring of executives for what has been dubbed China Hong Kong Airlines. "At the least they have put themselves in a strong bargaining position."



The strength of this position has been reflected in the relationship between Cathay and Citic. Earlier this month, Citic Pacific's chairman and managing director announced they were resigning from the Cathay board in a move that indicated a desire to distance themselves from Cathay, while signalling their own ambitions for Dragonair.

"These are important moves in a very complex game," says one aviation consultant. "They [Citic] want to be seen as the mainland aviation operator in Hong Kong, and are distancing themselves from British interests."

According to this view, Citic's plans cannot be achieved in the face of opposition from CNAC. Although Citic carries significant clout in Beijing – the father of Mr Larry Yung, Citic's chairman, is China's vice-president – CNAC holds the trump cards on aviation issues. This position is reinforced by the fact that post-1997 air routes between China and Hong Kong will ultimately be decided by the central government in China.

"The fact that Dragonair has been frustrated in terms of expansion may show the limits of Citic's influence in their rivalry with CNAC," says one industry executive. "There is no love lost between Citic and CNAC, but pragmatism may force them closer."

This is no small concern for Cathay, which fears the prospect of competition with the subsidiary of the Chinese aviation authority and which has hoped to satisfy mainland ambitions through the presence of Citic as a significant local player.

It contests the legal basis for a CNAC operation in Hong Kong, citing the requirement in Hong Kong's *post-1997 constitution that the* territory's operators must have their principal place of business in Hong Kong. For Cathay, the issue is a test of the "one country, two systems" principle which underpins the handover to China.

Cathay's Chinese opponents, however, are set to play the competition card, criticising Hong Kong's "one route, one airline" policy.

Cathay's argument that the 60-odd international carriers flying in and out of Kai Tak airport provide adequate competition, may not cut much ice with hungry rivals from the north. Nor is there much it can do about the realpolitik relating to the sensitivity of a UK-controlled group owning the territory's main carrier.

"The real issue is the creation of a Chinese entity to challenge Cathay," says Mr Koo at CS First Boston. According to this view, the *present sparring is an elimina*tor bout to decide who will face Cathay in the heavyweight decider. That contest will make the current jostling around Dragonair seem sedate. But it also explains why it matters so much.

John Ridding

Cumnock Coal likely to reject Glencore bid

By Nikki Tait in Sydney

Glencore International, the inter*national* commodity trading group based in Switzerland and formerly known as Marc Rich, yesterday made a A$60m (US$47m) bid for Cumnock Coal, the Australian coal producer.

Glencore has instructed its brokers, BT Securities, to stand in the market from April 9, and offer to acquire Cumnock shares at A$2.50 each. The on-market tender will last for a *month*. *Cum*nock shares closed 5 cents higher, at A$2.10.

According to its brokers, the Swiss-based group already holds a 22.9 per cent stake in Cumnock, plus a further 1.66m options, or more than one-fifth of *all* options in issue.

Cumnock has yet to make a formal response to the offer. But Mr Tom Johnson, chairman, indicated yesterday the company was unlikely to be enthusiastic. "We'll be putting out our response fairly quickly and [are likely] to tell shareholders not to sell," he was reported as saying.

Cumnock's operations are based in the Hunter Valley in New South Wales, near the Liddell and Bayswater power stations. However, the company now produces coal for domestic use and export, and last month announced a deal with a Japanese customer for a *five-year semi-soft coking coal supply* contract.

Cumnock's coal production in the half-year to end-December was 973,198 tonnes, slightly less than the forecast 1.05m tonnes, because of industrial disruptions and rain. It has forecast production to the year to end-June at between 2m and 2.2m tonnes.

Glencore has several interests in Australia. One of its most recent investments was in the redevelopment of Mount Lyell, the copper-gold deposit in Tasmania, where production has been resuscitated by the Gold Mines of Australia group. Glencore signed up to take 10 years' output from Mount Lyell.

● Ampolex, the Australian energy group, yesterday rejected an amended takeover document from Mobil, which has mounted a hostile bid for the company. The bid process could now be stalled for several more weeks.

Ampolex won an interim injunction preventing Mobil from sending out the *original bid documents* and the two sides are arguing in court over the adequacy of the revised version. The court hearings will continue today.

Compaq offers network products

By Louise Kehoe in San Francisco

Compaq Computer, the world's largest personal computer manufacturer, will today launch a range of products designed to break into the rapidly-growing market for computer networking equipment.

Previously, Compaq has built network adapter cards for its own PCs but has had no distinct presence in the $13bn network equipment market.

The move follows Compaq's acquisition last year of Net-Worth and Thomas Conrad, two small US networking equipment companies. Compaq subsequently formed a new internetworking division which is now launching its first products.

The market for computer networking equipment is growing rapidly as businesses install and upgrade networks. Salomon Brothers predicts worldwide sales of $32bn by 1999. The market is dominated by companies such as Cisco Systems, Bay Networks and 3Com, which manufacture routers, bridges, hubs and network adapters - the "plumbing" equipment that holds together local and wide area computer networks.

The market is attractive because networking equipment carries gross profit margins of about 50 per cent of revenues, according to Mr Doug Pushard, Compaq vice-president. PC gross profit margins have shrunk to about 20 per cent.

Compaq's first networking products include adapter cards, which can be plugged into PCs and servers, and a high-speed switch that directs data traffic from desktop PCs to groups of servers.

Mr Pushard said Compaq would undercut the prices of established suppliers by between 5 and 20 per cent. "We believe we can be very, very competitive by pushing down the cost of ownership and improving the ease of use of these products," he said.

Compaq's current revenues from networking products are about $150m a year. The company aims to triple that amount this year and to continue to grow faster than the market for several years.

Compaq plans to introduce a router for use in wide area networks later this year as a result of a joint development agreement with Cisco Systems.

British Gas faces tough challenge

The company is gambling on three large projects in South America

British Gas, which has targeted South America as one of two regions central to its global expansion plans, is gambling its Latin American future on three large, but highly risky, projects: a $900m gas pipeline between Argentina and Chile, a $2bn pipeline from Bolivia to Brazil, and the search for oil in disputed waters around the Falkland Islands.

All three are fraught with complexity, admits Mr Stephen Brandon, executive director with special responsibility for the Americas.

"The investments we are going to make in [Latin America's] southern cone are going to be heavily determined by our success or failure with [these] two or three big projects," he says.

As well as doubts over the projects themselves – all in their early stages – the UK company will also have to confront internal financing constraints as a result of its complex demerger.

"We have made commitments on dividend policy . . . which will require some fairly prudent corporate management of our cash flows," says Mr Brandon. "Our capacity to fund these projects is going to be affected by competition from other regions of the world, like south-east Asia . . . which will be competing for corporate funding."

Further ahead, however, "demerger will differentiate what we now call TransCo International [the pipeline business] as a long-term investment-driven company [from] British Gas Energy, which is a short-term commercial trading business," he says. "The two were constraining each other." After the merger, he believes, investors' different view of TransCo will make it easier to raise more long-term project financing.

Mr Brandon hopes that much of those funds can be funnelled into South America, where energy markets are rapidly opening up. Liberal economic reforms, plus the Mercosur regional integration process, spearheaded by Argentina and Brazil, have attracted the attention of the global exploration and production community, he says. "One is seeing the development of a very serious reserve capacity matched to very serious market prospects."

It is with the intention of linking reserves with a potential market that British Gas, together with Tenneco Gas of the US, is planning an 800km pipeline from Argentina's Patagonian fields to Chilean customers in and around Santiago.

But others have had the same idea: Novacorp of Canada is heading a consortium with an alternative pipeline plan. That has left British Gas's Transgas project in a complex game of bluff with Novacorp, which has already signed Chilean gas sales contracts and has started laying pipes.

Mr Brandon vigorously denies Transgas has been left behind in a race where winner is likely to take all. Transgas will "within weeks" firm up a sales contract with a North American consortium willing to build a large power station in central Chile, he says. But, "whether Chile's market can support two pipelines from an economic standpoint is debatable".

If doubts shroud the UK company's Chilean pipeline, its two other star projects are still more nebulous. The first is a plan, still some years off, to build a $2bn pipeline between Bolivian gas fields and Brazil. The viability of this pipeline will depend on the ability of the many companies involved to work together, as well as on liberalisation of Brazil's and Bolivia's energy markets.

British Gas's participation in the project is through the BTB consortium, formed with Tenneco and Australia's BHP. This has 25 per cent of the proposed pipeline on the Brazilian side and 4.5 per cent in Bolivia.

British Gas is considering raising its stake by participating in the privatisation of YPFB, Bolivia's state hydrocarbons group (which has a 51 per cent stake in the Bolivian section of the pipeline and 12 per cent of the Brazilian section). It is also evaluating YPFB's upstream assets, which will also be sold off within months.

Oil exploration around the disputed Falkland Islands promises to be perhaps the highest-risk proposal of them all. It could also bring the biggest rewards. British Gas, which has teamed up with Argentina's privatised oil group YPF to evaluate seismic data, is expected to bid for one or more blocks by July.

The company, which believes political risk in the former war zone has been neutralised by last year's Anglo-Argentine co-operation accord, concedes that the technical challenges are big.

The deep waters around the Falklands, distant from leading markets, may stretch drilling capacity to the limits. It is likely to take millions of dollars and several years to prove the existence of exploitable reserves.

Mr Brandon says the task British Gas has set itself in South America is tough. "The challenge is to successfully develop the kinds of projects which are difficult at the best of times in circumstances as a company of unusual uncertainty," he says.

"That obliges us to be, on the one hand, extremely aggressive in order to pull off these kind of projects, and on the other hand, extremely prudent to do so within the restraints of our obligations to shareholders." The ability of British Gas to juggle these contradictions is ultimately likely to define its South American fortunes.

David Pilling

Lucio Noto, Mobil chairman (right), joins BP's John Brown in celebrating the formation last month of an alliance *Ashley Ashwood*

Mobil plans more asset disposals

Mobil plans additional assets sales this year to complete a restructuring designed to cut operating costs and boost earnings, Reuter reports from New Orleans.

The US oil company's real estate operations and some US non-core producing fields are on the blocks, the final steps in a restructuring expected to cut costs by about $1.3bn, Mr Lucio Noto, chairman, said at an energy conference.

"I wish I could tell you the restructuring is over. In my opinion it is not," he said. "I think we would be waving the flag of victory too early if I said it was over."

The company sold about $2bn of assets in 1995. In 1996, Mr Noto said Mobil would sell the remainder of its plastics business and non-core petroleum properties in the US. Mobil's cost-saving goals did not include an additional $400m to $500m a year it expected from its planned European marketing and refining alliance with British Petroleum.

Mobil expects its restructuring to help boost earnings to $3.2bn by 1998 and allow the company to meet a target of more than 12 per cent growth in return on common equity during the period, Mr Noto said.

Mobil posted $2.9bn in operating earnings in 1995, a 12.8 per cent return on common equity. The company expected the earnings growth to push its stock price to $125 by 1998, Mr Noto said. In early trading in New York yesterday the stock was changing hands at $114¾, down $⅛.

Since 1992, Mobil has pared staffing costs by $750m and US refining costs by $300m. The company's restructuring is likely to include more downsizing. In 1995, restructuring and asset sales reduced the number of employees by 14 per cent, to 50,400.

Mr Noto said restructuring yielded net savings of $500m in 1995. Operating earnings were $2.8bn.

Mobil has not relied on rising crude oil prices for its projected growth in earnings, and Mr Noto declined to predict prices. "We have stopped predicting crude prices," he said. "We use $17. It's consistent with prices to the time of Adam and Eve."

NEWS DIGEST

Medtronic in deal to acquire InStent

Medtronic, a Minnesota pacemaker manufacturer, is to buy InStent, an Israeli maker of specialised medical equipment, in a deal valued at about $200m. Medtronic will exchange 0.3833 of a share for each of the 10m InStent shares plus options outstanding.

InStent's stock gained 12.5 cents to $22 in early trading on Nasdaq, while Medtronic was unchanged at $57½ on the New York Stock Exchange. The deal is valued at about $200m. InStent, based in Minneapolis and Tel Aviv, manufactures stents, which are used to hold open such passages as the oesophagus or arteries. The company reported about $2.4m in revenue for 1995, an increase of some 211 per cent over the previous year.

The principal shareholders of InStent, with about 35 per cent of the outstanding shares, have agreed to vote in favour of the transaction. *Reuter, Minneapolis*

Dealer ordered to repay $7.8m

The National Association of Securities Dealers, the regulatory body for the US securities industry, has ordered Mr Franklin Wolf to repay $7.8m to clients who were sold penny stocks in violation of Securities and Exchange Commission rules by his firm F. N. Wolf. Mr Wolf has been fined $250,000 and barred from the industry for life. He is appealing to the SEC. Mr Wolf's firm filed for bankruptcy in 1994.

Ms Mary Schapiro, the newly appointed head of regulation at the NASD, said the decision was "necessary to protect the investing public and serve as a deterrent". She is regarded in the industry as "an aggressive regulator" although this case began long before her appointment.

The NASD found that F. N. Wolf sold shares in Nacoma Consolidated Industries to clients in violation of the SEC's penny stock rule. This rule defines penny stocks in a variety of ways, one being a share price of under $5. Under the rules, brokers must receive written confirmation from customers that the stock is a suitable investment for them. *Maggie Urry, New York*

Jamaican brewer in red

Desnoes and Geddes, the Jamaican brewer in which Guinness of the UK has a controlling interest, reported a US$2.1m loss for the year ending December. Higher interest charges caused by depreciation of the Jamaican dollar and a strike late last year which temporarily closed the brewery were the main reasons for the loss.

Wage increases agreed by the company were higher than the inflation rate, while the prices of the company's products were increased at a rate below inflation, said Mr Terry Challenor, president. "For example, Red Stripe beer prices increased by only 15 per cent during the year, while inflation was around 25 per cent," he said. Red Stripe beer is the company's flagship product. *Canute James, Kingston*

COMPANIES AND FINANCE: UK

Orders up 6% in first quarter and European growth seen for second half

Morgan Crucible eyes acquisitions

By Peter Marsh

Morgan Crucible, the speciality materials and engineering group, is poised for further acquisitions in emerging markets such as south-east Asia and eastern Europe, the company said yesterday.

The company is also planning to sell "non-core" businesses – such as those related to defence – worth an estimated £35m ($54m).

Pre-tax profit in the year to January 4 was £85m, in line with expectations, up from £72.8m.

Mr Bruce Farmer, managing director, said orders in the first three months of 1996 were up roughly 6 per cent on the equivalent period last year.

He felt the economic outlook in continental Europe would improve this year, which could lift second-half results.

He said price increases, new product development and continuing emphasis on cost control had contributed to a further increase in operating margins.

Turnover advanced by 6.6 per cent to £847.8m, although the rise was 14.9 per cent excluding businesses sold in 1994.

Operating margins improved from 10.5 per cent to 12 per cent.

One bleak spot for the company concerned its production of speciality materials in the US for the defence industry where demand fell away.

Operating profits for the whole of the speciality materials arm fell to £16m (£17m) on like-for-like sales of £156.1m, against £144.9m.

The company said its carbon division, which produces items mainly for use in electrical devices such as motors, had an "excellent year".

Operating profit increased 26.9 per cent to £24.1m (£18.7m) on sales up from £149.4m to £164.2m.

In technical ceramics, operating profit was £24.4m, (£18.9m). Sales were £218.3m (£188.6m).

The thermal ceramics division turned in operating profits of £37m, compared with £25.1m, on turnover higher at £309.3m (£255.2m).

Earnings per share were up 14 per cent to 25.2p (22.1p). A final dividend of 7.55p makes a total of 13.8p, up from 13.1p.

Prospective pre-tax profits for this year are estimated at £97m, giving a forward p/e of about 15.

Ashley Ashwood

Bruce Farmer, right, and Graham Swetman, finance director: cost control helps margins

Simon Engineering returns to black

By Geoff Dyer

Simon Engineering, the process plant, mobile platform and storage group, yesterday recorded its first profit since 1991 and announced its return to the dividend list. The return to the black with 1995 pre-tax profits of £8.4m ($13m) compared with losses of £18m the previous year. Turnover was flat at £319.1m (£314.2m).

Mr Maurice Dixson, chief executive, said the group had now completed its restructuring programme which involved selling 14 businesses since December 1993 and reducing the workforce by a third.

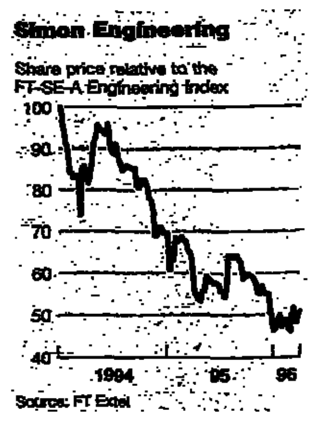
The improved results were based on an increase in operating profits to £8.5m (£1.2m) at the US business of Simon Access, the gantry and mobile platform division. Losses from the US part were reduced to £6.2m (£10.9m), benefitting from sales of new products, particularly firefighting equipment.

Mr Dixson disclosed that one of the group's US banks had refused to extend a $15m (£9.8m) banking facility which expires at the end of this month. Net debts were £75.1m, giving gearing of 94.5 per cent (94.3 per cent).

Simon Storage, the bulk storage business, improved profits to £11.1m (£9.5m). Mr Dixson said that the group was looking to develop the Killingholme site on the Humber into a new deep water port at a cost of £18m.

Simon Carves, the process engineering arm, turned £500,000 of losses into profits of £2.8m.

Analysts forecast that the group would make pre-tax profits of about £16m this year.



Source: FT Extel

Burmah in £24m disposal to Norsk

By Motoko Rich

Burmah Castrol, the lubricants, chemicals and fuels group, is selling its service station business in Sweden to Norsk Hydro, Norway's biggest quoted company, for £24m ($37m).

Filling station disposals have so far raised nearly £160m. Last month the group announced the sale of its networks in Turkey and Chile for £44.3m and £20m respectively. Last July, it sold its UK fuels business to Frost Group for £83m.

Burmah said it had decided to sell the Swedish network because trading conditions had deteriorated and competition had intensified. Mr Jonathan Fry, chief executive, said: "Norsk Hydro, by virtue of its larger share of the Swedish market, is in a good position to develop the business for the longer term."

At present Norsk runs 220 stations in Sweden, with about 8 per cent of the market. The Burmah purchase will take its share to 11 per cent.

Burmah has remaining fuels businesses in Australia, Belgium and the Republic of Ireland. The company said the Belgian and Irish businesses were so small that they were integrated with the lubricants divisions in those countries.

"If someone came along and offered us a lot of money we would extricate them but that is not likely in the near future," it said.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Alexon	Yr to Jan 27	103.9	(95.1)	3.03	(3.66L♠)	3.26	(9.22L)	nil	-	nil	nil	nil
Bourne End Props	Yr to Dec 31	15.6	(15.2)	1.04	(0.841)	1.45	(1.01)	0.65	July 4	0.6	1.2	1.1
Caldwell Invs	14 mths to Dec 31♦	10.1	(8.03)	0.405	(0.178)	3.02	(1.25)	0.725★	May 22	0.6125	1.1125	1
Capital & Regional	Yr to Dec 25	10.1□	(8.17□)	4.74	(4.15)	8.85	(8.77)	1.7	June 3	1.5	2.5	2.1
Chez Gerard	6 mths to Dec 24	8.38	(6.53)	1.35	(1.07)	5.2	(3.8)	0.9	May 14	0.75	-	2.4
Dmatek ♦☆	Yr to Dec 31	0.785	(0.212)	3.47L	(0.988L)	29L	(8L)	-	-	-	-	-
Forth Ports	Yr to Dec 31 ★	47.3	(35.7)	15.3♠	(13.9)	29.4†	(27.5)	8	May 24	7.25	11.6	9.95
Hodder Headline	Yr to Dec 31	88.8	(80.6)	5.7	(6.16)	13.1	(15.7)	4.5	May 17	4	6.5	6
Hollas	6 mths to Dec 31 ■	45.1	(35.8)	3.29L♠	(1.71L♠)	2.7L	(1.07L)	-	-	0.3	-	0.7
How	Yr to Dec 31	125.1	(125.3)	1.2	(2.65L)	2.7	(6.97L)	0.75	July 1	0.375	1.125	0.75
Inchcape	Yr to Dec 31	6,296	(6,102)	17.4♠	(228.4)	8.3L	(28.8)	4	July 1	9	11.5††	15
IoM Steam Packet	Yr to Dec 31	29.3	(27.7)	0.587♠	(2.46)	2.4	(7.8)	4	May 7	3.75	5.75	5.5
Lincat	6 mths to Dec 31	11.9	(9.32)	1.01	(0.995)	7.1	(9.1)	2.7	Apr 26	2.7	-	8.2
London Securities	15 mths to Dec 31‡	1.79‡‡	(-)	0.73	(0.225L)	15.1	(37.9L)	5	May 10	nil	8.5	nil
Mansfield (John)	Yr to Dec 31	8.52	(7.73)	0.13	(0.25)	0.15	(0.44)	-	-	-	-	-
Meriston	Yr to Dec 31	18.7	(21.1)	2.8	(2.92♥)	7.3†	(7.3)	1.2	May 30	1	1.8	1.5
Moorfield Estates	Yr to Dec 31	7.63	(5.76)	0.67	(1.3)	0.77	(2.13)	0.25	May 2	0.5	0.75	1
Morgan Crucible	Yr to Jan 4	847.8	(795.1)	85	(72.8)	25.2	(22.1)	7.55	July 8	7.15	13.8	13.1
Nestor-BNA	Yr to Dec 31	129.1	(117.7)	6.31	(0.081L♠)	5.79	(2.08L)	2	May 24	2	3.15	3.15
Newport	Yr to Dec 31	1.99‡‡	(1.2‡)	0.212	(0.1)	2.67	(1.44)	0.75	May 20	0.5	0.75	0.5
Page (Michael)	Yr to Dec 31 ★	103.8	(74.3)	17.7	(8.94)	18.39	(9.51)	3.9	May 24	2.2	5	3
Pieasse §	Yr to Dec 31	13.6	(13.7)	1.34♥	(0.715)	18.5	(9.7)	3	July 1	2.5	5	4
Scotia	Yr to Dec 31	15.6	(15.8)	11.8L	(3.54L♥)	16.7L	(5.7L)	-	-	-	-	-
Simon Engineering	Yr to Dec 31	319.1	(314.2)	8.44	(18L♥)	2.1	(15.2L)	0.64	-	nil	0.64	nil
T&S Stores	Yr to Dec 30	445.2	(411.7)	15.5	(13.9)	15.13†	(14.53)	4.3	May 24	3.9	7.1	6.5
Tay Homes	6 mths to Dec 31	39.7	(41.7)	0.251	(2.05)	0.59	(4.51)	1.55	May 3	1.55	-	7
Taylor Nelson AGB	Yr to Dec 31	80.2	(61.5)	6.53	(6.19)	2.02	(1.92)	0.35	July 1	0.34	0.7	0.64
Tele-Cine Cell	Yr to Dec 31	12.1	(13)	1.4	(2.31)	7.6†	(15.2)	3.6	May 24	1.21	5.4	1.21
Travis Perkins	Yr to Dec 31	491.6	(466.5)	36.5	(38.9♥)	23.7	(26.4)	6.5	May 20	6.2	9.3	9
UDO	6 mths to Jan 31	26.1	(25.6)	3.17	(2.82)	7.25	(6.46)	2.75	May 17	2.52	-	9.6
Vero	Yr to Dec 31 ★	97.2	(78.7)	8.11♠	(6.6)	9.6	(-)	-	-	-	-	-
Waterford Foods ♣	Yr to Dec 31	786.7	(710.8)	24.9	(5.77♠)	9.48	(1.81)	1.8	June	1.72	3.1	2.97

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. □Rental income. ΦAim stock. ☆US currency. ★Comparatives restated. †On increased capital. §USM stock. ⽕Foreign income dividend. ⽕⽕Includes foreign income dividend element of 1.5p. ¥Comparatives pro forma. ♣Irish currency. ♦Comparatives for 12 months. ‡Comparatives for year to September 30 1994. ‡‡Net rents received. ‡For 9 months to December 31 1994. ■Comparatives for 6 months to September 30 1994.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Prices for Trading on 26.03.96: Pool purchase price £/MWh	Final Prices for Trading on 27.02.96: Pool purchase price £/MWh	Pool selling price £/MWh
0030	12.68	9.58	9.68
0100	14.17	12.53	12.53
0130	32.17	8.53	9.50
0200	32.17	8.53	9.50
0230	14.17	8.53	9.50
0300	17.64	8.53	9.50
0330	17.64	8.53	9.50
0400	14.17	12.53	12.53
0430	12.67	12.51	12.51
0500	12.67	9.68	9.68
0530	9.20	9.18	9.18
0600	9.20	9.60	9.60
0630	9.20	9.68	9.68
0700	12.74	12.58	12.58
0730	21.57	12.86	13.85
0800	22.41	13.13	14.19
0830	23.66	13.45	14.58
0900	28.17	14.03	15.33
0930	35.96	14.95	16.33
1000	45.13	15.14	16.56
1030	38.90	14.67	16.02
1100	36.68	14.29	15.58
1130	36.55	14.29	15.59
1200	38.28	14.22	15.56
1230	35.39	14.11	15.44
1300	34.19	13.74	14.96
1330	29.82	12.98	12.98
1400	25.96	12.84	12.84
1430	23.59	12.80	12.80
1500	23.45	12.78	12.78
1530	23.54	12.74	12.74
1600	24.60	12.95	12.95
1630	28.38	13.56	13.56
1700	31.59	16.47	18.38
1730	34.54	21.34	24.65
1800	42.08	33.61	39.37
1830	83.41	39.22	45.75
1900	83.81	35.87	41.48
1930	79.99	25.34	28.81
2000	49.12	17.70	19.39
2030	36.51	13.61	14.76
2100	27.71	13.15	14.20
2130	24.14	12.92	13.91
2200	19.27	12.82	13.79
2230	14.40	12.53	12.53
2300	14.40	9.68	9.68
2330	12.68	9.18	9.18
2400	9.19	9.16	9.16

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone C115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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CONTRACTS & TENDERS

Sale of testing services could raise £300m and leave net cash

Inchcape looks to distribution

By David Wighton

Inchcape could raise more than £300m ($459m) from the sale of its testing services division as part of a strategy unveiled yesterday of focusing on its distribution businesses.

The group announced the proposed sale and confirmed the departure of chief executive Mr Charles Mackay, 55, as it revealed a 36 per cent drop in annual profits to £146.8m before exceptional charges.

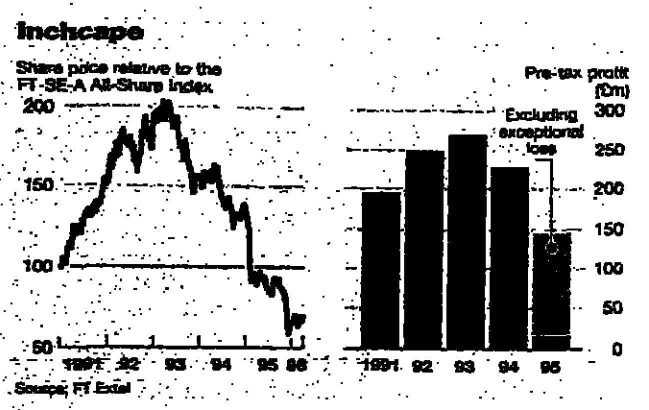
Sir Colin Marshall, who has been conducting a strategic review since becoming chairman in January, said that focusing on a limited number of potentially larger international businesses would ensure that management effort was spent in the most appropriate areas.

He added that the sale of testing services and the proposed flotation or demerger of Bain Hogg, the insurance broking arm – both planned for this year – would "increase the group's financial flexibility to support these businesses and exploit the major growth opportunities they offer". Analysts estimated that testing services could raise more than £300m; if Inchcape opted for a flotation of Bain Hogg it could bring in another £250m, leaving the group with net cash.

Analysts said Mr Mackay was paying the price for the slump in Inchcape's underlying profits, which have almost halved over the past two years.

Trading conditions had continued to deteriorate in some areas, said Sir Colin, but Inchcape's actions and those of its suppliers and the weaker yen would "progressively benefit" the group during the second half.

Sir Colin also announced that the management of its marketing division, centralised in London in 1992, will be moved back to Asia. Inchcape will also consider the introduction of new partners or local shareholders "to add value and improve the stability and growth" of the marketing business.



Source: FT Extel

Bilfinger loses £9m on Birse sale

By Andrew Taylor, Construction Correspondent

Bilfinger & Berger, the large German construction group, is estimated to have incurred a £9m ($14m) loss on the sale of its 9.7 per cent stake in Birse, the UK construction group.

It joins a number of continental European construction groups which have made large losses after purchasing stakes in UK building and civil engineering groups in the mid to late 1980s.

Bilfinger's shares have been placed at 20.25p each with investment clients of stockbrokers Cazenove.

The German company originally paid 120p, or £11.4m, for a 15 per cent stake in Birse when the UK company was floated in 1989. It paid a further £1.8m in 1993 when the group raised £24m through a share placing to strengthen a weakened balance sheet. Bilfinger's stake, as a result, was cut to just under 10 per cent.

SB chief given £0.85m for relocation costs

By Daniel Green

Mr Jan Leschly, the Danish-born chief executive of SmithKline Beecham, was paid £850,000 ($1.3m) in relocation expenses when he moved from the UK to the US. The payment was for the costs of moving and did not cover buying any property.

The relocation expenses, paid in 1994, were disclosed in the company's 1995 annual report, published yesterday. Companies normally pay top executives relocation expenses but this is one of the biggest amounts.

The UK's second-biggest drugs company also disclosed that Mr Leschly was paid £1.8m in 1995. His basic £800,000 was supplemented by a £928,000 bonus and £76,000 in other benefits. That compared with a £2.4m package in 1994 including the relocation costs. Mr Leschly moved house from Buckinghamshire to Princeton, New Jersey, where he already owned a property.

His company was formed in 1989 when SmithKline Beckman of the US merged with the UK's Beecham. The new company is based in the UK, but has extensive operations in the US.

The accounts also show payments to two former directors of £3.2m in 1995. Mr Bob Bauman, Mr Leschly's predecessor as chief executive, received £2.8m, of which £1.65m related to a long-term incentive scheme. Mr Henry Wendt, former chairman, received £392,000.

The sector has long been one of the best payers to top executives. Mr Bauman was one of the first chief executives of a UK company to receive a £1m-a-year pay package in the late 1980s.

Last week, the 1995 annual report from Glaxo Wellcome, the world's largest pharmaceuticals company by sales, revealed that Sir Richard Sykes, chief executive, had been paid £2.15m in the 18 months to the end of 1995.

In addition to his 1995 pay packet, Mr Leschly received £386,000 (£329,000) in pension contributions.

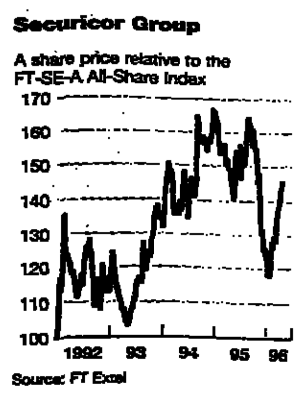
Other SB directors fared less well. Mr George Poste, head of research and development, saw his pay cut to £714,000 (£1m).

LEX COMMENT

Securicor

It has been a long wait for Securicor shareholders, but it will have been worth it. At one fell swoop, Securicor has resolved two of the three core issues that have restrained its share price: namely an absurdly complex share structure, and the tax implications of selling its 40 per cent stake in Cellnet. Moreover, the third issue – achieving the sale or flotation of Cellnet – has become less of an obstacle, since the management has in effect put the company into play. By removing minority shareholders in its subsidiary Security Services and unifying three separate classes of shares, Securicor re-emerges as tempting morsel for an outside buyer. Its share price should reflect this. Even assuming a 20 per cent discount to Vodaphone UK – on the basis of value per population within the network area – the Cellnet stake is worth £200m more than Securicor's entire market capitalisation after the restructuring. And it can be sold tax-free. The rump business would be worth £350m on an average price-earnings ratio. And the increased management focus on the residual business could only help improve the current low margins. Without improvement, the business will remain vulnerable to bidders.

Of course, the Department of Trade and Industry blocked earlier plans to sell the Cellnet stake to the obvious buyer, its 60 per cent shareholder British Telecommunications. Nonetheless, the cellular phone market has since become more competitive, and the strength of competition is emphasised by the flotation of Orange. And even if the DTI's fuzzy logic continues, there must be scope to sell to one of BT's global partners.



Source: FT Extel

DIGEST

Securicor simplifies capital structure

Securicor, the security, parcels and communications group, pleased investors yesterday by announcing long-awaited proposals to simplify its complex capital structure.

The assets and businesses of Securicor and its majority-owned subsidiary, Security Services, are to be transferred to a new holding company and the four classes of share capital are to be converted into one.

Shares rose strongly after analysts said the new capital structure made a takeover bid for the group more possible. The market was also pleased by a statement from Securicor that any future sale of its 40 per cent stake in the Cellnet mobile telephone network, would not result in a tax liability. *Geoff Dyer*

Strong demand lifts Vero

Strong demand from the telecommunications and electronics industries helped Vero Group, the manufacturer of specialist racks and enclosures which floated on the stock market in November, increase annual pre-tax profits by 23 per cent from £6.8m to £8.11m ($12.4m). However, the figure included a £3.2m exceptional charge for an employee profit-sharing scheme, without which profits rose 71 per cent to £11.3m. Turnover increased 23 per cent to £97.2m.

Supplies to the mobile telecoms business, up 40 per cent during the year, rose from 19 to 21 per cent as a proportion of group sales.

Capital expenditure of £4.5m during the year included expansion of the group's Uxbridge plant to allow assembly of digital mobile base station sub-racks and enclosures for Ericsson. The Swedish electronics group is Vero's largest customer, accounting for about 15 per cent of revenues.

In continental Europe, there was a recovery in Germany and smaller improvements across the group's other markets. Vero also expanded production capacity at its Connecticut facility in the US. New distributors were appointed in Taiwan and Japan, while the group took a 35 per cent stake in an Indian electronics packaging manufacturer. *Christopher Price*

Slough to reshuffle management

Slough Estates, one of the UK's largest property companies, is preparing for a reshuffle which is expected to lead to the departure of one of its most senior managers. Sir Nigel Mobbs, chairman and chief executive for 20 years, will step down from the latter post in favour of Mr Derek Wilson, currently managing director.

Mr Roger Carey, also managing director and tipped to succeed Sir Nigel, is expected to leave. The reshuffle clears the way for Mr Wilson to head Slough Estates when Sir Nigel, 58, retires as executive chairman.

It also brings the company into line with the recommendations of the Cadbury Committee on corporate governance which recommended splitting the roles of chairman and chief executive. *Simon London*

Williams makes security buys

Williams, the international industrial holdings group, is strengthening its position in the European and North American security market with two acquisitions.

The group, which owns the Yale brand, has paid $14.1m for Folger Adam, the US prison security lock and high security window specialist. It has assets of about $14m and has been operating in Chapter 11.

Williams has agreed to pay L13bn for Corni Serrature, the Modena-based locksmith which has been under court administration. The deal is subject to court and creditor approval and confirmation of asset valuations.

'Horrible year' for Hodder

Mr Tim Hely Hutchinson, chief executive of Hodder Headline, the UK publishing group, is happy to have left 1995 behind. "It was a horrible year. The retail, book club, library and schools market all went soft at the same time," he said as announcing a 30 per cent fall in 1995 pre-tax profits to £5.7m ($8.72m).

Unexpected sales shortfalls reduced print runs and also hit gross margins through clearances of excess stock and resulting provisions. Hodder said it would continued to take action on margins and overheads. *Raymond Snoddy*

Dmatek losses increase

Dmatek, the Israel-based software company that joined Aim through a placing in December, announced pre-tax losses of $3.47m on sales of $785,000 for 1995. Losses last time were $988,000 on turnover of $212,000.

It has won a contract for electronic monitoring of house arrest in the US, where sales last year were $360,000. Sales in Israel were $278,000 and in Europe, $147,000. Losses per share deepened to 26 cents (8 cents).

Indonesian expansion for C&W

Cable & Wireless, the UK-based international telecommunications group, is to acquire a 25 per cent stake in an consortium which will build and operate a fixed and wireless telephone network in Indonesia's Kalimantan region.

The stake in the Daya Mitra Malindo Kalimantan KSO consortium represents its first investment in the fast expanding Indonesian telecom market and plugs a gap in the group's South East Asia operations. *Paul Taylor*

LAW

Ban on drug imports valid

EUROPEAN COURT

The European Court of Justice has ruled in favour of a Belgian prohibition on the importation of veterinary medicines from other European Union states in cases where they were not authorised in Belgium. The ruling arose out of proceedings brought by groups which included vets, dispensing chemists and a company specialising in supplying chemists in Belgium with medicines not authorised in Belgium but authorised in France.

They applied to the Belgian Conseil d'Etat for an order annulling the Belgian legislation which prohibited all imports of unauthorised medicinal products apart from certain exceptions. The Belgian court referred the cases to the European Court, asking whether it was possible for a member state to prohibit the import of a medicinal product, where its marketing had not been approved by the competent national authority.

The European directives in this field were intended to harmonise the legislation of EU states on veterinary medicinal products and, in particular, the conditions governing the authorisation for their marketing. They recognised that the primary purpose of such rules was the safeguarding of public health, and the remaining barriers to freedom of movement should be gradually removed.

A recent directive established a European Agency for the Evaluation of Medicinal Products and sought to ensure that authorisation to place a medicinal product on the market in one state was in principle recognised by the competent authorities of the others.

The veterinary groups relied on four main arguments. First, they submitted that since the directives did not provide for full harmonisation of all national measures, they left room for the application of Treaty of Rome principles governing the free movement of goods. The court rejected that argument and observed that the wording of the directives meant only that the system of multiple national authorisations for the marketing of products was destined to be replaced by a system under which account was to be taken of authorisations granted by other member states, and subsequently by a system for their mutual recognition.

Second, the groups argued that some medicinal products, such as serums, did not come within the scope of the directives and left room for the application of the rules for the free movement of goods. The European Court declined to rule on this directly and observed that it was solely for the national courts to determine in each case the need for a preliminary ruling and the relevance of questions submitted. Since the Belgian court had not requested an interpretation of the treaty rules, the European Court did not need to make such a ruling.

Third, the veterinary groups argued that the directives only covered the placing of medicinal products on the market, and not the import by a dispensing chemist of a product which had not been authorised in Belgium. However, the European Court ruled that the directives covered both the marketing and the administration of products and, therefore, also their import by a chemist.

Finally, they argued that animal owners were dependent on the goodwill of pharmaceutical companies which refused to place certain products on the Belgian market because of the formalities and costs associated with authorisation, and the low profits earned in a market as small as Belgium.

The prohibition on importing products for which no equivalent existed on the Belgian market therefore endangered the health of animals and humans. However, the European Court said that, in adopting this legislation, Belgium was acting within its sphere of competence under European law, and it was therefore only in the light of national law that the public health policy pursued could be assessed.

C-297/94: Bruyere and others v Belgium, ECJ 1CH, March 21 1996.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Kvaerner names oil & gas team

Kvaerner, the Norwegian engineering and shipbuilding company, has named new executives to head its oil and gas division, which is due to be bolstered by the recent agreed takeover of Britain's Trafalgar House group. Tore Bergersen (above) has been named executive vice president in overall charge of a new regional structure into which the merged oil and gas operations of the two groups will be put. He will be based in London.

Ingebrigt Moum will lead the Norwegian region, with Graham Gottsche the head of the international region and Frank Chapman, a new recruit from Shell, due to take over the UK operations.

The merged operation will be among the world's biggest offshore oil and gas fabricators, rivalling market leaders Brown & Root and McDermott of the US. *Robert Corzine*

Air Canada's pilot

Another American will soon take the helm at Canada's biggest airline. Lamar Durrett, 56, takes over in May as chief executive of Air Canada. He replaces Hollis Harris, 63, the Georgia-born Delta and Continental executive, who has turned the airline round since he took the controls in 1992.

Durrett, who moved from Delta to Air Canada with Harris, is Air Canada's chief administrative office and has long been regarded as Harris's protegé. Durrett, who comes from Atlanta, has broad experience of running technical and administrative operations at several US airlines including Delta and Continental.

Although Air Canada is in a much stronger position that it was when Harris and Durrett moved in, it still faces fierce price cutting in its domestic markets at a time when it is trying to expand further into the US and Asia. Harris will continue as executive chairman but there has been speculation that he may also set up a new low cost carrier in the US.
Robert Gibbens

Saison succession

Seiji Tsutsumi, founder of Japan's Saison Group, has taken over as chairman and chief executive of his group's Inter-Continental Hotels and Resorts chain, following the death of Sueaki Takaoka.

Inter-Continental, which operates 170 hotels in 67 countries, is probably the oldest of the big international hotel chains. Set up by Pan American Airways in 1946, it has changed hands several times and was owned by Britain's Grand Metropolitan before being sold to Saison in 1989.

Saison, a privately-owned conglomerate controlling nearly 200 companies, is planning to float the Intercontinental Hotel management business on the international stock market next year.

Tsutsumi says that he plans no change to the strategies, structure and organisation which have been put in place by Takaoka, 67, who has headed the hotel chain for the last four years. *William Hall*

Beltrami takes chair

Ottorino Beltrami, 79, has been promoted from deputy chairman to chairman of the charitable foundation which owns Cariplo, one of Italy's largest banks. His predecessor, Roberto Mazzotta, stepped down from an operational role two years ago after he was implicated in a Milanese corruption investigation.

Beltrami was chosen as one of the few politically neutral members of the foundation's board, most members of which are nominated by the local and regional authorities in Milan and Lombardy. He may well have to preside over the partial privatisation of the Milan-based bank, announced last year. *Andrew Hill*

Citibank departure

Citibank's head of European real estate has resigned from the US bank following a management reshuffle. Jeff Heintz, managing director of Citibank's European real estate group, has left the bank to set up his own property consultancy.

Under Heintz, Citibank was actively involved in European property markets both as a lender and as an equity investor. It backed landmark projects such as the development of Frankfurt's 60-storey Messeturm office tower, which is widely regarded as one of the most profitable European office developments of the last decade.

Heintz's role has been filled by John McLean, the Canadian banker responsible for Citibank's stake in Canary Wharf, the office development in London's Docklands which was sold last year to an international consortium for £800m. *Simon London*

Goldstein's new card

Sears, Roebuck, the US retailing giant, has underlined its commitment to strengthen its credit card business by poaching Steven Goldstein from American Express. Goldstein, 44, who resigned as chairman and chief executive of American Express Bank in February, is joining as president, credit.

He succeeds Jane Thompson, who was recently named president of Sears Home Services. Prior to joining American Express Bank, Goldstein had worked in the American Express card business, and Citicorp's consumer services group.

Ricoh's president

Ricoh, the Japanese office equipment maker, has appointed the former head of its European operations as its next president. Masamitsu Sakurai, 54, general manager for research and development at Ricoh, takes over as president on April 1 when Hiroshi Hamada, 62, the current president, moves up to be chairman.

Sakurai, who joined Ricoh in 1966, was involved in establishing Ricoh's first European manufacturing plant at Telford, Shropshire, in 1984 when he was president of Ricoh UK products. Since then Ricoh has put down strong roots in Britain, culminating in last year's acquisition of Gestetner, the office supplies company. *William Hall*

Lewis' revolving role

John Lewis, Amdahl's chairman, has taken on the additional roles of president and chief executive of the California-based mainframe manufacturer, following the surprise departure of Joseph Zemke who has resigned "for personal reasons".

For Lewis, 60, who joined Amdahl as president in 1997, this will be the second time he has held the dual role of president and chief executive. He became chairman in 1987, and served as chief executive from 1983 to 1992.

Zemke, who joined Amdahl in 1985 as chief operating officer, first succeeded Lewis as president in 1987 and then as chief executive in 1992.

Under his leadership Amdahl, which is 44 per cent owned by Fujitsu of Japan, has been attempting to modernise its product portfolio and make the transition from being an old-style manufacturer of IBM-compatible mainframe computers to a broader-based computer group.

Commenting on the changes, Lewis paid tribute to Zemke, who had, he said, "positioned the company well to take advantage of the dynamic markets we are now able to address."
Paul Taylor

ON THE MOVE

■ ELECTROLUX of Sweden has appointed Luigi de Puppi, 54, chief executive of Electrolux Zanussi, the parent company for the Swedish group's white goods activities in Italy. He takes over from Lennart Ribohn, a senior vice president of Electrolux, who remains on the Italian company's board.

■ Richard Reynolds-Hale has been appointed general manager of the north American animal health business unit of HOECHST-ROUSSEL AGRI-VET. He joins from Hoechst South Africa, where he had been managing director of Hoechst Agri-Vet since 1991.

■ Samuel Huey, 44, has been appointed publisher of PC WORLD, owned by PC World Communications, a subsidiary of International Data Group. He joins from Ziff-Davis Publishing, where he was ultimately publishing director for PC/Computing.

■ Peter Dailey, chairman of the supervisory board of MEMOREX TELEX for the last four years, replaces Marcelo Gumucio, who has resigned as chief executive.

■ P.R. Rastogi has been appointed managing director of the newly-formed company Clariant India, a subsidiary of CLARIANT INTERNATIONAL.

■ Gordon Paris has been named managing director of high-yield origination and capital markets for TORONTO DOMINION SECURITIES. He was previously managing director and head of the leveraged finance group at CS First Boston.

■ Bernard Isautier has been appointed to the board of HURRICANE HYDROCARBONS, a Canadian energy company developing four oil fields in Kazakstan. He was most recently chief executive officer of Canadian Occidental.

■ Alan Mnuchin and Michael Yagemann have been appointed by BEAR, STEARNS as co-heads of its media and entertainment group. Mnuchin joins from Goldman Sachs, where he was a vice president in its investment banking division. Yagemann currently serves as head of the firm's media and entertainment group.

■ Francisco Ros has been appointed chairman and managing director of UNISOURCE, the pan-European telecommunications group, in which Telefonica has a 25 per cent stake; he was previously director of Telefonica's international communications department.

■ Luigi Capuano, former general manager of Istitutu San Paolo di Torino, has been appointed managing director of BANCA POPOLARE DI NOVARA. He replaces Andrea Bertozzi, who will resign on April 27 1996.

■ Guenter von Au, who previously managed the construction division, has taken over the management of the polymers unit of WACKER-CHEMIE. He succeeds Klaus Hoefelmann, who has moved to the silicones unit.

■ Andrew Liveris has been appointed by DOW CHEMICAL as president of Dow Pacific. He was previously business vice president of Dow Environmental.

■ Pêter Lee has been named by property consultants JONES LANG WOOTTON as chairman for JLW Hong Kong. With the company 20 years, he is the first Chinese national to run the local office.

■ Krishan Dhawan has been named by BANK OF AMERICA as head of its Asian banking unit in the US. Dhawan has been with the bank for 18 years in Asia and now will be based in Los Angeles.

■ John Legere has been appointed president of AT&T Asia/Pacific, a new services company.

■ Pierdonato Palusci becomes chairman of GOODYEAR FRANCE. He replaces Sylvain Valensi, who was made vice chairman of Goodyear Europe earlier this year.

■ Leo Crawford, finance director of Irish Distillers, has been appointed managing director of BWG FOODS. Paul Duffy becomes finance director of IRISH DISTILLERS.

■ Jean-Claude Gruffat becomes chairman Asia/Pacific of BANQUE INDOSUEZ. Gruffat was recently in charge of Indosuez Capital, the equity and investment banking operations of Banque Indosuez world-wide. He will be based in Singapore.

■ John Wills has been promoted to managing director John Hancock Advisers International, the London office of Boston-based JOHN HANCOCK FUNDS.

■ Richard Crystal joins THE LIMITED as chief executive officer of Lerner New York, the sportswear division. Between 1974-95 he held various positions with R H Macy.

■ Bob Frey, chairman and chief executive of Whirlpool Asia (WAAG), a subsidiary of WHIRLPOOL CORPORATION, is resigning. Bob Hall, president and chief operating officer of WAAG, will become executive vice president of Whirlpool Corporation and president of Whirlpool Asia. Roy Armes, vice president, manufacturing and technology, WAAG, becomes president of the Greater China operating region, based in Hong Kong.

■ Lance Browne, Hong Kong-based regional director for PowerGen, has been appointed STANDARD CHARTERED BANK chief executive for China and Macau. Browne, who speaks fluent Mandarin, will be based in China.

■ Wilbur Prezzano has been appointed vice chairman at EASTMAN KODAK. He will continue as president of the company's operations in China.

International appointments

Please fax announcements of new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

COMMODITIES AND AGRICULTURE

OECD forecasts increased grain price volatility

By Richard Mooney

World grain prices are likely to become increasingly volatile over the next few years in spite of a recovery in stock levels, according to the Organisation for Economic Co-operation and Development.

"Low stocks, tight supplies, robust demand and unusually high prices" characterised international cereal markets at the beginning of the five-year period discussed by the OECD in its latest Agricultural Outlook report, the organisation said yesterday.

It added, however, that that trend was unlikely to last. "High prices will ration demand and stimulate additional supplies," it explained, "and world wheat and coarse grain prices will fall from their current highs over the medium term. They are, nevertheless, expected to remain well above average."

World grain stocks, which recently fell to 20-year lows, were likely to increase again, the OECD said. But they would remain below historical levels, "opening the possibilities for increased price volatility over the medium term".

The report suggests that high feed costs will lead to slower growth in pork and poultry production in most OECD countries.

On beef, the report, which was prepared before the latest "mad cow disease" crisis developed in the UK, predicts "no major swings in cattle cycles".

It forecasts a continued increase in total meat supplies, "putting downward pressure on prices in many countries".

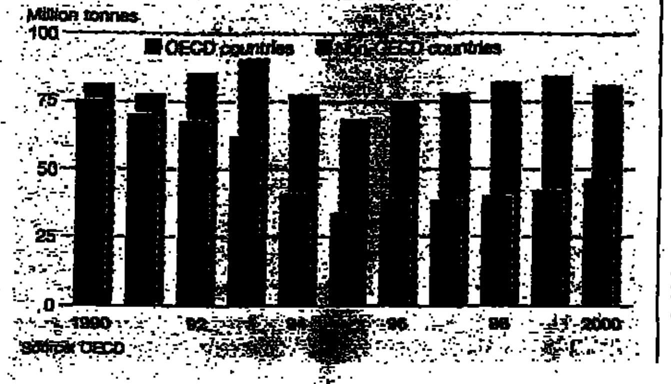
Stronger prices are expected, however, towards the end of the decade, "due to even greater market access, strong import demand from Asian countries and reduced subsidies exports by the European Union".

"Lower surplus production of milk coupled with less subsidised exports are expected to bring about high world prices for dairy products," the report says, "particularly skim milk powder and cheese." It sees world butter prices staying well above the averages for the first half of this decade.

In a statement published yesterday the OECD said its forecasts suggested good prospects for market-driven growth in world commodity markets in the medium term, "with prices generally higher than in the past, but more volatile".

The Agricultural Outlook – Trends and Issues to 2000: From OECD publications distributors, including HMSO, PO Box 276, London SW8 5DT. Price: FFr175 in France; elsewhere FFr175, US$34, or DM50.

Wheat stocks



Source: OECD

Argentina accuses Britain of Falklands fishing licence 'blunder'

By David Pilling in Buenos Aires

Nearly all possibility of concluding a swift Anglo-Argentine fishing agreement in disputed South Atlantic waters had been ended by recent British actions over South Georgian fishing licences, Mr Guido Di Tella, Argentina's foreign minister, said yesterday.

In an interview, Mr Di Tella said the decision last month to charge an Argentine flag vessel to fish around South Georgia, a UK dependency, was "ill-timed and ill-conceived", and "put a cloud over the whole relationship".

The Falkland islands government is keen to establish long-term fishing quotas in the South Atlantic, particularly for the highly prized ilex squid. The fact that catch levels have dropped alarmingly in the past few seasons has raised concern that South Atlantic waters are being severely over-fished. The ilex squid migrates between Argentine and Falkland waters making co-operation in conservation essential.

Mr Di Tella said Argentina disputed Britain's right to charge licences in waters around South Georgia, which were administered under the Convention for the Conservation of Antarctic Living Resources. In the past, Argentine vessels had been allowed to fish freely in the region.

Mr Di Tella said the decision to provoke an incident with Argentina by charging an Argentine-registered vessel $110,000 to fish in the zone must have been taken at a low level. £1.4m on collecting and ... He could not believe such a "blunder" could have been made at the highest levels of the British foreign office. British actions had succeeded only in "ruining the fishing negotiations", he said.

In any case, fishing talks held in Buenos Aires last month – before the South Georgia incident – had not gone well, he said. The Falklands government was pressing for an "unrealistic and premature" long-term agreement that amounted to a "British cartel" over fishing in the South Atlantic, he said.

Argentina, instead, sought greater scientific co-operation to determine stock levels. "One of the problems in the South Atlantic is that we do not know enough about the behaviour of the stocks," he said.

Falklands officials have, in the past, accused Argentina of using this as a pretext for stalling negotiations, thus maintaining political pressure on the Falklands, whose economy is largely based on fishing.

Mr Di Tella said problems over fishing should not divert attention from the excellent progress made in oil. A recent Anglo-Argentine meeting to discuss an oil co-operation zone in the South Atlantic had been very fruitful.

MARKET REPORT

LCE cocoa upturn runs out of steam

London Commodity Exchange COCOA futures flirted with upside ranges on Monday but gains were capped by a lack of industry buying, traders said.

After a strong start that saw the benchmark May delivery contract easily pierce nearby resistance at £905 a tonne the market drew further support from New York to reach a two-week high of £912. But it then shaved gains and ended at £910, still a two-week high and up £17 on the day.

"We seem to be following New York," said one trader, describing activity as mainly short-covering by speculators and trade buying.

While the market emerged from well-worn contract lows, traders remained sceptical about its ability to attack the upside. "We haven't seen much industry buying," one said.

But fundamental news was lacking, while the scale of Ivory Coast supplies this season continued to be a worry.

LCE robusta COFFEE also drew some support from New York dealings in late trading, but prices ended down as producers gathered in London for a technical meeting.

"It's going to be a bit of window-dressing and nothing more," said one trader of the meeting between the technical experts of the Association of Coffee Producing Countries.

Compiled from Reuters

Chips are down for potato growers

Choices have to be made soon on arrangements to replace Britain's marketing board

FARMER'S VIEWPOINT

By David Richardson

In June 1997, the Potato Marketing Board will follow most of the other UK agricultural marketing boards, created in the farming depression of the 1930s, into oblivion.

Ostensibly, this has been decreed by the Ministry of Agriculture because marketing boards do not comply with European Union rules – whereas co-operatives do. In reality, however, such boards and their historic ability to manage supplies and intervene in markets do not fit the free market convictions of the British government. Following a prolonged period of lobbying by the friends of the potato board and delay by the government, it was finally decided to close it down.

But as well as market management, the PMB has always been involved in generic promotion, statistical analysis and research and development. It is perceived by many potato growers, some of whom are still disappointed at the demise of the PMB, that there is an on-going requirement for such activities.

The Minister of Agriculture has conceded that this may be so and has agreed to create a new body to pursue these objectives if potato growers indicate that they want one and are prepared to fund it. Accordingly, all registered potato growers will, within the next few days, receive a voting paper on which to record their preferences.

The chairman and staff of the existing board are, somewhat predictably, in favour of a new body which, if approved by a majority of growers, will be called the Great Britain Potato Organisation. The NFU has also declared itself in favour of the GBPO.

Moreover, the chairman of the NFU's potato commodity committee, Mr Jim Padfield, has made the point in a letter to all potato growers that "in the absence of a European potato regime [the crop has never been the subject of EU regulations or price guarantees] national support [for potatoes] will continue to be available to our European competitors. Our sole protection is continuing technical innovation and product promotion," he said.

There can be little doubt that the promotion of potatoes in the UK, by the processing sector as well as the PMB, has worked. Britain now consumes more potatoes per head of population than most other countries in the world.

Research funding by independent agencies is being severely and potentially seriously cut and this trend needs to be redressed if possible. Mr Padfield believes a national body to co-ordinate such matters in the future is vital.

The plan, as explained to potato growers in papers accompanying their voting forms, is to spend each year £2m on market development, £2m on research and development, £1.4m on collecting and disseminating statistics on the crop and almost £1m on administration and collecting the cash to fund itself. This all adds up to some £6.32m a year which, it is envisaged, would come from statutory levies on all potato producers, together with up to 20p per tonne handled from those who buy potatoes from farms.

To raise the producers' share of the necessary cash would imply a statutory levy of either £35 or £40 a hectare – on average roughly £1 for each tonne grown. The £5 a hectare difference will be dependent on potato growers' decision on what should happen to over £5m of reserves previously contributed by growers and still held by the PMB.

If growers, by their majority vote, wished for this money to be returned to them when the board is wound-up, the annual levy would be £40 per hectare. But the PMB and the NFU want to persuade growers simply to transfer the cash to the GBPO as an investment to get it started. Should this latter course be decided upon, the levy would fall to £35 a hectare.

The two questions potato growers will have to vote on, therefore, are whether they wish for a GBPO with its implied costs and a staff of 65 and whether they want their money back or are prepared to leave it in the new organisation.

It has become clear in the weeks running up to the poll that some growers, particularly those with large acreages, have begun to think that those two questions are insufficient.

For the record, it should be noted that the UK potato crop has become concentrated among fewer and fewer growers in recent years. Indeed, some industry pundits suggest that 70 per cent of the potatoes produced in Britain are grown by about 1,000 specialist farmers. And while many of these big operators are convinced of the need for some kind of co-ordinating body, some think the plans as stated are too ambitious.

This even includes some elected members of the existing PMB who believe the job that needs to be done could be adequately covered by a staff of about a quarter of the 65 proposed. Clearly, were this to be the size of a GBPO, there would be implications for running costs and the necessary levy would be smaller.

The same kind of individuals have expressed their objection to the concept of merely transferring the PMB money across to the GBPO. They do not approve of growers' cash sitting unused in a bank, even though the interest on it would contribute to running costs. Some suggest its very presence might lead to complacency, slack management and inadequate financial rigour. They want their money back to ensure a lean, mean GBPO.

The polling form, which potato growers must complete and return by April 14, does not allow for such variations in opinion.

So, what can dissatisfied producers do? Frankly, very little at this stage of the game. If, on balance, they believe such a body is necessary, they can only vote "yes" and hope that the people selected to run it agree with them and cut it back to size as soon as practicable. If they vote "no", they run the risk of being inadequately represented in the corridors of power, both in the UK and in the EU.

For some it is not a happy or straight-forward choice.

JOTTER PAD

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY ($ per tonne) · ALUMINIUM ALLOY ($ per tonne) · LEAD ($ per tonne) · NICKEL ($ per tonne) · TIN ($ per tonne) · ZINC, special high grade ($ per tonne) · COPPER, grade A ($ per tonne)

[illegible]	[illegible]	[illegible]

LME AM Official £/$ rate: 1.5235 · LME Closing £/$ rate: 1.5245

HIGH GRADE COPPER (COMEX)

[illegible]	[illegible]	[illegible]

PRECIOUS METALS

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

[illegible]	[illegible]	[illegible]

Precious Metals continued

GOLD COMEX (100 Troy oz.; $/troy oz.) · PLATINUM NYMEX (50 Troy oz.; $/troy oz.) · PALLADIUM NYMEX (100 Troy oz.; $/troy oz.) · SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

[illegible]	[illegible]	[illegible]

ENERGY

CRUDE OIL NYMEX (42,000 US galls. $/barrel) · CRUDE OIL IPE ($/barrel) · HEATING OIL NYMEX (42,000 US galls; c/US galls) · GAS OIL IPE ($/tonne) · NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu) · UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

[illegible]	[illegible]	[illegible]

GRAINS AND OIL SEEDS

WHEAT LCE (£ per tonne) · WHEAT CBT (5,000bu min; cents/60lb bushel) · MAIZE CBT (5,000 bu min; cents/56lb bushel) · BARLEY LCE (£ per tonne) · SOYABEANS CBT (5,000bu min; cents/60lb bushel) · SOYABEAN OIL CBT (60,000lbs; cents/lb) · SOYABEAN MEAL CBT (100 tons; $/ton) · POTATOES LCE (£/tonne) · FREIGHT (BIFFEX) LCE ($10/index point)

[illegible]	[illegible]	[illegible]

FUTURES DATA

All futures data supplied by CMS.

Tea

There was fairly good demand this week reports the Tea Brokers Association. Bright East Africans were about steady while mediums remained firm. Malawi clonals met good competition and advanced several pence. Offshore: strong demand at generally dearer rates. Quotations: best available: 140p-150p/kg, good: 130p-140p/kg, good medium: 116p-128p/kg, medium: 93p-112p/kg, low medium: 80p-93p/kg, highest price realised this week was 150p/kg for a kenya pf.1.

SOFTS

COCOA LCE (£/tonne) · COCOA CSCE (10 tonnes; $/tonnes) · COCOA (ICCO) (SDR's/tonne) · COFFEE LCE ($/tonne) · COFFEE 'C' CSCE (37,500lbs; cents/lbs) · COFFEE (ICO) (US cents/pound) · No7 PREMIUM RAW SUGAR LCE (cents/lbs) · WHITE SUGAR LCE ($/tonne) · SUGAR '11' CSCE (112,000lbs; cents/lbs) · COTTON NYCE (50,000lbs; cents/lbs) · ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]	[illegible]	[illegible]

Jul	131.80	+0.50	131.90	128.10	108	4,375
Sep	129.50	+0.40	129.50	128.00	79	2,383
Nov	125.90	-0.10	125.45	125.40	11	891
Jan	124.00	+0.25	124.00	124.00	96	2,752
Mar	126.00	+0.25	-	-	4	164
Total					855	28,885

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

REUTERS (Base: 18/9/31=100)

Mar 23	Mar 22	month ago	year ago
2136.8	2141.5	2140.8	2312.1

CRB Futures (Base: 1967=100)

Mar 22	Mar 21	month ago	year ago
252.06	250.67	248.40	234.62

GSCI Spot (Base: 1970=100)

Mar 22	Mar 21	month ago	year ago
207.95	205.32	198.23	179.90

MEAT AND LIVESTOCK

LIVE CATTLE CME (40,000lbs; cents/lbs) · LIVE HOGS CME (40,000lbs; cents/lbs) · PORK BELLIES CME (40,000lbs; cents/lbs)

[illegible]	[illegible]	[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

ALUMINIUM (99.7%) LME · COPPER (Grade A) LME · COFFEE LCE · COCOA LCE · BRENT CRUDE IPE

[illegible]	[illegible]	[illegible]

LONDON SPOT MARKETS

CRUDE OIL FOB (per barrel) · OIL PRODUCTS NWE prompt delivery CIF (tonne) · OTHER

Dubai	$17.51-7.58x	+0.160
Brent Blend (dated)	$21.36-1.40	+0.270
Brent Blend (May)	$19.72-9.78	+0.300
W.T.I.	$21.82-1.90x	-0.020
[illegible]	[illegible]	[illegible]
Tin (Kuala Lumpur)	15.80r	-0.15
Tin (New York)	301.5	+4.0
Cattle (live weight)†	94.38p	-25.98*
Sheep (live weight)†♣	163.54p	+15.86*
Pigs (live weight)†	110.29p	+3.85*
Lon. day sugar (raw)	$320.6	-2.4
Lon. day sugar (wte)	$403.5	-1.0
Barley (Eng. feed)	113.25	
Maize (US No3 Yellow)	145.5z	
Wheat (US Dark North)	Unq.	
Rubber (Apr)♥	104.00p	-0.50
Rubber (May)♥	103.25p	-0.50
Rubber (KL RSS No1)	384.50m	-4.50
Coconut Oil (Phil)§	$735.0v	-7.5
Palm Oil (Malay.)§	$530.0z	-5.0
Copra (Phil)§	474.0	+4.0
Soyabeans (US)	209.0v	+4.0
Cotton Outlook'A' Index	83.65	
Wooltops (64s Super)	442p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x May. z Apr. v Apr/May. y Apr/Jun. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♣ Sheep (Live weight prices). * Change on week. †Prices are for previous week.

CROSSWORD

No.9,028 Set by HIGHLANDER

ACROSS

1 Scored with Botham off injured (4,2,6)
10 Comes round, note, before fast bend (7)
11 Opening in diamonds after indication of alternative provided (7)
12 Irritated feeling because card game hasn't finished (5)
13 One is able this way to provide flowering plant (8)
15 Painful ailment – gossip said it is contracted by male (10)
16 Wear away with fighting (4)
18 Proceed very slowly from Winchester to Oxford (4)
20 Carefree cousin upset one worker (10)
22 No way out for those voting against the point (2,6)
24 On the coast of Coromandel high water covers national capital (5)
26 Moved my paint drums (7)
27 Rubbish, I said, bathe later (7)
28 Let it stand – I'm involved in artistic dabbling (12)

DOWN

2 Inclined to be old and cold, or so it's said (7)
3 Star supports natural lighting (8)
4 Gaelic poetry lacks leading character (4)
5 Cricket side appearing on grounds every so often (2,8)
6 Brother Scot – called this? (5)
7 Wild hit over the river there once (7)
8 For helping with blend of tea that's in the right ratio (13)
9 Day and night treks arranged – traditionally popular with shepherds (3,3,2,5)
14 Put fielder in position from where things can be seen (10)
17 Thorough examination using litmus paper? (4,4)
19 Choice in front of journalist is: with top of milk added? (7)
21 Each listener on Sunday is very attentive (3,4)
23 Crop left to creep (5)
25 Gamble on a second in Greek (4)

Solution to Saturday's prize puzzle on Saturday April 6.
Solution to yesterday's prize puzzle on Tuesday April 9.

INTERNATIONAL CAPITAL MARKETS

State election results lift bund prices

By Antonia Sharpe in London and Lisa Bransten in New York

German government bonds surged yesterday on the back of what the market regarded as positive results in three state elections. The governing CDU and FDP coalition parties did better than expected while the main opposition SPD party suffered significant losses after attempting to exploit fears over European economic and monetary union.

Ms Phyllis Reed, European bond strategist at BZW, said although the results meant that Emu was now more likely to happen in 1999 – an event which has been unnerving the market in recent months – an SPD/Green government was less likely. "And the market fears the latter more," she said.

Mr Graham McDevitt, senior bond strategist at Paribas Capital Markets, said the election result was the necessary trigger for bunds to rebound after the losses suffered in recent weeks. "Bunds were primed to move higher," he said.

Bunds were also lifted by a picture of steady inflation in Germany which fanned expectations that the Bundesbank could cut official interest rates after its council meeting on Thursday. While many analysts believe that the Bundesbank will hold off until April or May, expectations of a rate cut this week are likely to grow in the run-up to Thursday's meeting.

Mr Stuart Thomson, international economist at Nikko Europe, expects the Bundesbank to cut the discount rate by 50 basis points to 2.5 per cent on Thursday, bringing the rate down to the previous post-war low set in 1987. He also expects 50 basis points off the Lombard rate to 4.5 per cent and the minimum repo rate to be fixed 20 basis points lower at a new low of 3.10 per cent.

On Liffe, the June bund contract rose 0.87 to 96.53 in heavy volume of 146,304 contracts. However, the spread over US Treasuries was little changed at about 6 basis points.

Mr McDevitt said the bund contract could reach 97½ this week but he advised traders to take profits before Thursday since a decision by the Bundesbank not to cut rates could prompt a temporary fall.

He also forecast that the spread over Treasuries could widen to as much as 20 basis points in the near term as the US market sprinted ahead, but thereafter he expected bunds to trade through Treasuries.

■ Continued concerns about the impact of mad cow disease on the UK government's finances restricted gains in the UK government bond market. On Liffe, the June long gilt contract rose ⅝ to 105⅜ but the spread over bunds widened to 180 basis points, from 170 basis points before the BSE scare broke late last week.

GOVERNMENT BONDS

Mr Andrew Roberts, gilts analyst at UBS, said as long as BSE remained an issue for the market, both in terms of a higher UK PSBR and trade deficit, it would be difficult for gilts to make up the underperformance.

However, he did not believe that the BSE issue would cause serious problems for tomorrow's £3bn auction of 7 per cent stock due 2001 since there was widespread demand for short-dated paper.

He said five-year gilts were looking cheap against their German and French counterparts but added that the 140 days of accrued income on the stock could put off some institutional investors.

■ French government bonds recovered from their weakness late last week as traders sought to profit from what they perceived to be an oversold situation. The market's strength caused the spread over Germany to narrow to about 21 basis points from close to 30 points late last week. On Matif, the June 10-year notional government bond contract rose 1.04 to 121.60.

■ Technical buying helped US Treasury bonds reverse some of the losses made over the past two weeks in early trading, despite data showing that home buying picked up in February.

Near midday, the benchmark 30-year Treasury was up ⅞ at 93½ to yield 6.571 per cent, the lowest yield since the day before the market was jolted by surprisingly strong employment figures that suggested the economy was picking up more quickly that most analysts believed. At the short end of the maturity spectrum, the two-year note was ⅛ stronger at 99, yielding 5.660 per cent.

Mr Kevin Sluder, senior fixed-income trader at First Chicago NBD, said that strength in German bunds had helped the US markets.

Later, when the price of the June long bond future climbed over 112 – which was considered a technical resistance level – there was a wave of buying that the market managed to hold through the morning.

Mr Sluder added, however, that most of the activity he had seen was short-term trading buys, not longer-term commitments to the market, so he did not see yesterday's uptick as the end of the bear market.

Bonds managed to shrug off figures showing that existing home sales rose 6.5 per cent to a seasonally adjusted rate of 3.96m in January, the first increase since September of last year. Mr Elliott Platt of Donaldson Lufkin & Jenrette attributed the increase to a rebound from January weakness and fears that mortgage rates were about to rise.

Five-year Disney paper outperforms longer tranche

By Samer Iskandar

The two-tranche global deal launched on Friday by CSFB and Merrill Lynch on behalf of the Walt Disney Company was still the subject of most discussion in trading rooms yesterday as the week got off to a slow start.

Syndicate managers described it as a "total success" and a "blow-out". In the afternoon, the spreads over US Treasuries had tightened by 2 basis points and 1 basis point to 33 and 46 points respectively for the five-year and the 10-year maturities.

Demand from Europe was strong for the shorter-dated bonds, while the 10-year paper was mainly targeted at US investors. This made observers predict that "the five-year paper has started – and will probably continue – to outperform the 10-year".

However, a few syndicate managers complained about the size increase which, some said, made clients withdraw orders. The amount was initially set at $1.5bn, but was subsequently increased to $2bn, and then to $2.6bn a few hours after the announcement.

The sterling market saw only one transaction, a retail targeted three-year issue by LB Schleswig-Holstein, paying a 7¼ per cent coupon.

INTERNATIONAL BONDS

The lead manager, HSBC Markets, saw strong demand from Europe, where the issuer is seen as "an appealing retail name", but expects it will take some time before the whole amount filters through to final investors.

The Republic of Argentina took heart from the success of its recent issue in D-Marks and tapped the European market again yesterday, with a five-year deal in Austrian schillings.

The Nordic Investment Bank seized a swap opportunity in the peseta market to obtain financing at a "very attractive sub-Libor dollar floating rate".

Despite the long maturity, retail demand was strong due to the particular structure, said BNP, joint book-runner for the deal with BNA.

The coupon is fixed at 9.60 per cent until 2001, when the paper is callable; it is then increased to 10.12 per cent for the remaining five years.

According to BNP, this structure allowed the issuer to offer a positive spread over Spanish bonos, whereas existing supranational bonds are currently yielding less than the equivalent government benchmarks.

Elsewhere, the European Investment Bank offered L500bn of zero-coupon 10-year bonds identical to, and fungible with, an existing issue.

No large deals are expected in the near future, but favourable swap conditions should boost the primary market in Italian lire and Spanish pesetas in the next few weeks, syndicate officials said.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Walt Disney Company	1.3bn	6.375#	100.00R	Mar 2001	0.35R	+35(5⅝%-01)	CSFB/Merrill Lynch
Walt Disney Company	1.3bn	6.75#	99.855R	Mar 2006	0.50R	+47(5⅝%-06)	CSFB/Merrill Lynch
Companhia Vale do Rio Doce(a)	300	10.00#	99.8772R	Apr 2004	0.875R	+400(5⅝%-01)	Chase/Chemical
CS First Boston(b)‡	250	(b1)	99.81	Apr 1998	undisci	-	CS First Boston
BNG	200	5.875	99.714R	Apr 1999	0.1875R	+4(5%-99)	DKB Intl/Merrill Lynch
Banco de Galicia‡	200	(c)	100.00R	Apr 1999	0.75R	-	SBC Warburg
D-MARKS							
North Rhine Westphalia(l)	500	5.75	101.512	May 2002	2.125	-	ABN Amro Hoare Govett
SWISS FRANCS							
Oest Kontrollbank(s)	500	4.25	102.75	Nov 2003	2.50	-	SBC Warburg
KfW International Finance(s)	150	4.00	102.75	Nov 2002	2.25	-	UBS
IBM Credit Corp(s)	150	3.50	102.40	Nov 1999	1.60	-	Credit Suisse/Merrill Lynch
STERLING							
LB Schleswig-Holstein(s)	100	7.25	99.2215R	Nov 1999	0.1875R	+20(6%-99)	HSBC Markets
LIRE							
European Investment Bank(c)	500bn	zero	38.286R	Feb 2006	0.50R	-	Cariplo/Deutsche/JP Morgan
PESETAS							
Nordic Investment Bank(e)	10bn	(e1)	101.325	Apr 2006	1.625	-	BNA/BNP España
AUSTRIAN SCHILLINGS							
Republic of Argentina(f)	750	9.00	99.50R	Apr 2001	0.625R	+372(5¼%-01)	Creditanstalt Inv'ment Bank
NEW ZEALAND DOLLARS							
World Bank	100	8.25	100.885	Apr 1999	1.50	-	CBA

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Puttable on 2/1/01 at 99.80%. b) Puttable in Apr 97 at 99.85%. b1) 3-mth Libor –5bp. c) 3-mth Libor +370bp. d) Fungible with L1000bn. e) Callable on 25/4/01 at par. e1) 9.60% to 25/4/01 and 10.12% thereafter. f) Recommended re-offer. l) long 1st coupon. s) Short 1st coupon

Indian stock markets see record foreign inflows

By Mark Nicholson in New Delhi

Resurgent foreign interest in India's stock markets prompted a record net monthly portfolio investment inflow of $435m in February, according to Mr Pratip Kar, executive director of the Securities and Exchange Board of India (SEBI), the market watchdog.

Mr Kar said total net inflows since the stock markets were opened to investment by foreign institutions in 1993 had now exceeded $5bn.

He added that net flows recorded so far this month had reached $140m, continuing a strong buying pattern by foreign institutional investors which began in December.

The present rush is India's second peak of foreign interest since pioneering funds entered the market between November 1993 and October 1994, during which more than $2.3bn was ploughed into Indian equities. January 1994 set a previous monthly record of $389m invested.

Although there has never been a net monthly outflow of funds since 1993, foreign interest dwindled from November 1994 and monthly inflows hit a low of $48m in November last year.

Mr Kar said new foreign entrants, mostly from the US, were behind the latest inflow, attracted by perceptions that the market was both historically cheap for India and relatively so in Asia.

The broad Indian market was trading at a prospective price-earnings ratio of around 10 late last year, and many foreign investors took advantage of a weaker rupee earlier this year to buy into the market.

"We found a lot of new foreign institutional investors who found new confidence in the Indian economy," Mr Kar told a Delhi business audience. He said total inflows for the fiscal year ending in April would reach $2bn.

The sharp rise in inflows has played a large part in both the recovery of the rupee and the rally in share prices over the past two months, lifting the 30-share Bombay Stock Exchange Sensex index from less than 2,900 points to more than 3,250.

Virtually all foreign institutions in Bombay have turned bullish on the market, with most forecasting it will stage a rally after the April-May general elections.

"We feel the Indian stock market has completed a major four-year correction and is poised for a bull run," ING Barings told clients this month.

Mr Kar said both SEBI and India's main markets, which number more than 20, were addressing foreign investors' main concerns about the Indian exchanges, namely the long and problematic settlement procedures, arduous and erratic share registration procedures and a high level of "bad deliveries".

He said the BSE had recently halved its settlement period to match the seven days offered by the rival National Stock Exchange. India's first automated and paperless share depositaries, could be in place by the end of this year, he said, and the SEBI has also demanded that all Indian exchanges complete moves to on-screen trading by June.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	106.7840	–0.210	8.96	8.89	8.09
Austria		6.125	02/06	97.4200	+0.550	6.48	6.64	6.43
Belgium		7.000	05/06	101.3100	+0.430	6.81	6.89	6.66
Canada *		8.750	12/05	107.4700	+0.180	7.64	7.77	7.05
Denmark		8.000	03/06	103.1600	+0.560	7.54	7.69	7.34
France	BTAN	5.750	03/01	99.7500	+0.510	5.94	5.93	5.55
	OAT	7.250	04/06	104.4800	+0.870	6.62	6.70	6.56
Germany Bund		*6.000*	*02/06*	*97.0700*	*+0.660*	*6.41*	*6.55*	*6.14*
Ireland		8.000	08/06	99.3500	+0.200	7.99	8.05	7.56
Italy		9.500	02/06	94.2600	+0.400	10.44†	10.51	10.47
Japan	No 129	6.400	03/00	116.6010	–0.200	1.90	1.81	1.97
	No 182	3.000	09/05	98.3320	–0.210	3.23	3.20	3.05
Netherlands		6.000	01/06	96.9400	+0.800	6.43	6.60	6.19
Portugal		11.875	02/05	113.5000	+1.200	9.55	9.79	9.49
Spain		10.150	01/06	102.4100	+0.780	9.85	10.04	9.65
Sweden		6.000	02/05	84.0820	–0.260	8.64	8.82	8.86
UK Gilts		8.000	12/00	102–06	+1/32	7.43	7.45	6.92
		7.500	12/06	95–28	+12/32	8.08	8.12	7.67
		9.000	10/08	106–06	+13/32	8.20	8.25	7.87
US Treasury *		5.625	02/06	95–11	+7/32	6.26	6.40	5.65
		6.000	02/26	92–13	+16/32	6.58	6.69	6.10
ECU (French Govt)		7.500	04/05	102.4800	+1.130	7.12	7.29	6.98

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8¼	One month	5.21	Two year	5.09
Broker loan rate	7	Two month	5.12	Three year	5.31
Fed funds	5¼	Three month	5.09	Five year	5.99
Fed funds at intervention	·	Six month	5.21	10-year	6.26
		One year	5.37	30-year	6.59

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	120.92	121.60	+1.04	121.60	120.92	110,206	138,093
Sep	119.70	120.40	+1.00	120.28	119.70	257	3,892
Dec	118.54	119.24	+1.00	118.54	118.54	2	623

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Apr	Calls May	Calls Jun	Puts Apr	Puts May	Puts Jun
119	-	-	-	0.02	0.19	0.40
120	1.59	-	2.16	0.03	0.32	0.64
121	0.64	1.11	1.47	0.08	0.56	0.94
122	0.00	0.56	0.94	0.74	1.07	-
123	0.01	0.22	0.54	-	-	-

Est. vol. total, Calls 20,303 Puts 17,375. Previous day's open int., Calls 164,332 Puts 178,994

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int
Jun	95.83	96.45	+0.80	96.60	95.70	152789	229678
Sep	95.35	95.60	+0.80	95.70	95.35	312	4260

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls May	Calls Jun	Calls Jul	Calls Sep	Puts May	Puts Jun	Puts Jul	Puts Sep
9600	0.92	1.22	0.95	1.23	0.47	0.77	1.35	1.63
9650	0.63	0.92	0.75	1.00	0.68	0.97	1.65	1.90
9700	0.38	0.68	0.58	0.80	0.93	1.23	1.98	2.20

Est. vol. total, Calls 19109 Puts 17773. Previous day's open int., Calls 208978 Puts 152312

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	108.85	108.97	+0.41	109.22	108.72	32086	50477
Sep		108.42	+0.41			-	258

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
10850	1.87	2.55	1.40	2.63
10900	1.60	2.32	1.63	2.90
10950	1.36	2.10	1.89	3.18

Est. vol. total, Calls 2108 Puts 1580. Previous day's open int., Calls 55033 Puts 48529

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	94.82	95.27	+0.88	95.40	94.62	60,134	41,550

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	105-11	106-07	+0-20	106-07	105-11	128	2932
Jun	104-24	105-08	+0-19	105-12	104-12	41145	112269

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls May	Calls Jun	Calls Jul	Calls Sep	Puts May	Puts Jun	Puts Jul	Puts Sep
105	1-05	1-33	1-23	1-45	0-53	1-17	2-13	2-35
106	0-38	1-02	0-63	1-20	1-22	1-50	2-53	3-10
107	0-19	0-42	0-44	0-63	2-03	2-26	3-34	3-53

Est. vol. total, Calls 2562 Puts 2020. Previous day's open int., Calls 30224 Puts 36398

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	88.74	89.60	+1.08	89.60	88.74	1,891	8,427

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	111-27	112-25	+0-30	112-27	111-25	183,420	358,327
Sep	111-14	112-09	+0-30	112-09	111-11	1,233	16,725
Dec	111-02	111-27	+1-00	111-27	111-02	52	3,153

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	118.62			118.64	118.53	972	-

* LIFFE futures also traded on APT. All Open interest figs. are for previous day

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Mon Mar 25	Day's change %	Fri Mar 22	Accrued interest	xd adj. ytd		Low coupon yield Mar 25	Mar 22	Yr. ago	Medium coupon yield Mar 25	Mar 22	Yr. ago	High coupon yield Mar 25	Mar 22	Yr. ago
1 Up to 5 years (24)	121.34	+0.14	121.17	1.87	2.43	5 yrs	7.51	7.58	8.38	7.54	7.61	8.42	7.64	7.72	8.58
2 5-15 years (19)	145.76	+0.44	145.13	3.16	1.69	15 yrs	8.26	8.32	8.36	8.27	8.34	8.45	8.39	8.45	8.70
3 Over 15 years (9)	158.31	+0.59	157.39	1.98	3.48	20 yrs	8.34	8.39	8.34	8.34	8.39	8.45	8.44	8.49	8.64
4 Irredeemables (6)	181.82	+0.52	180.87	3.54	1.12	Irred.†	8.39	8.43	8.39						
5 All stocks (58)	140.81	+0.36	140.31	2.48	2.31										

Index-linked							Inflation 5% Mar 25	Mar 22	Yr. ago	Inflation 10% Mar 25	Mar 22	Yr. ago
6 Up to 5 years (1)	196.97	+0.05	196.87	3.88	0.00	Up to 5 yrs	3.02	3.04	3.53	1.65	1.66	2.09
7 Over 5 years (11)	183.75	+0.20	183.38	1.25	0.84	Over 5 yrs	3.81	3.83	3.86	3.60	3.62	3.66
8 All stocks (12)	183.92	+0.19	183.56	1.30	0.82							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Mar 25	Mar 22	Mar 21	Mar 20	Mar 19	Yr ago	High*	Low*
Govt. Secs. (UK)	92.30	92.15	92.66	92.45	92.09	91.99	96.34	90.22
Fixed Interest	110.86	110.86	110.89	110.78	110.98	110.51	115.23	108.77

* for 1995/96. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	Mar 22	Mar 21	Mar 20	Mar 19	Mar 18
Gilt Edged bargains	84.9	95.7	98.7	102.8	98.9
5-day average	96.2	97.4	102.0	103.8	126.2

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Shorts" (Lives up to Five Years)						
Treas 15¼pc 1996‡‡	15.10	5.80	101	–⅛	108¾	101
Exch 13¼pc 1996‡‡	13.12	5.97	101	–⅛	106⅛	101
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 12½pc 2003-5	9.99	8.01	125⅛	+⅛	131⅝	121⅛
Treas 8½pc 2005‡‡	8.24	8.02	103⅛	+⅛	108⅛	99⅛
Treas 7½pc 2006‡‡	7.83	8.06	95¾	+⅛	101⅛	94⅛
Treas 7¾pc 2006‡‡	7.98	8.10	97⅛	+½	103¼	94⅛
Treas 8pc 2002-6‡‡	8.10	8.17	98⅛	–⅛	104⅛	95⅛
Treas 11¾pc 2003-7	9.82	7.95	119⅝	+⅛	125⅛	116⅛
Treas 8½pc 2007 ‡‡	8.30	8.15	102⅛	+⅛	108⅛	99⅝
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Index-Linked Notes	(b)	Yield (1)	(2)	Price £	+ or –	52 week High	52 week Low
4⅝pc '98‡‡	(135.6)	1.66	3.02	111⅝	+⅛	113⅛	108⅛
2½pc '01	(78.3)	3.11	3.64	178⅛	+⅛	180⅛	169⅛
2½pc '03	(78.8)	3.28	3.69	172½	+⅛	176⅛	164⅛
4⅜pc '04‡‡	(135.6)	3.33	3.70	115⅛	+⅛	118⅛	109⅝
2pc '06	(69.5)	3.44	3.73	180⅛	+⅛	185⅛	171⅛
2½pc '09	(78.8)	3.53	3.78	161⅛	+⅛	167¾	155⅛
2½pc '11	(74.6)	3.58	3.80	167	+¼	173⅛	160⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on March 25

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	99¼	99½	+¼	6.63
ABN Amro Bank 7¼ 05	1000	102⅝	102⅞	+⅛	6.98
African Dev Bk 7½ 23	500	99⅛	99⅜	+½	7.43
Sweden 8 97	2500	103⅛	103⅜	–⅛	3.98
United Kingdom 7⅛ 97	5500	105	105¼		3.81
Volkswagen Intl Fin 7 03	1000	102¼	102½	+⅛	6.59
World Bank 0 15	2000	29¼	29⅝	+⅛	8.43
Abbey Natl Treasury 8 03 £	1000	98⅛	98⅜	+⅛	8.36
Alliance Leics 11⅜ 97 £	100	104⅞	105⅛		6.87
British Land 8⅞ 23 £	150	87⅜	87⅝	+⅛	10.52
Denmark 6⅛ 98 £	800	99⅛	99⅜		7.13
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PORTUGUESE BANKING AND FINANCE

Maastricht target will be a tall order

The new Socialist government has made progress on the economy and Europe. But next year's budget may not be so easy, write David White and Peter Wise

The most unusual remark at the last European Union summit – the one in Madrid which baptised the planned new currency the euro – came from Mr António Guterres, the Portuguese Socialist prime minister. In the same way that the New Testament declared that "Thou art Peter, and upon this rock I will build my church," he proposed the dictum: "Thou art euro, and upon this euro we will build Europe's future."

It was Mr Guterres's EU council debut. His half-serious contribution somehow set the tone of the meeting. But it might have seemed a little odd, coming from the leader of one of the countries generally considered least likely to qualify for the single currency when and if it is launched in 1999.

Portugal must still rank as an outsider in the single currency stakes, but the idea of its joining is no longer so preposterous. Three months after the Madrid summit, Mr António de Sousa, the central bank governor, says he is "more optimistic about Portugal being able to fulfil the Maastricht criteria". Inflation is now lower than Spain's or Italy's; interest rates have been falling faster; budget results have been better than planned.

The Socialists, elected to power again last October after an absence of 10 years, have generally enjoyed a sunny honeymoon so far. A pact has been struck with employers and unions including wage guidelines. Inflation, which was well into double figures at the start of the decade, dropped to a 12-month rate of 2.5 per cent in January and February, the lowest in Portugal since the early 1960s. The government, with a minority in parliament, obtained passage for a tight budget with surprisingly little difficulty.

The October election, which ended a decade of centre-right leadership under Mr Aníbal Cavaco Silva, resulted in a greater degree of political stability than was generally expected. The Socialists came within four seats of a majority – a potentially precarious position, with the only other pro-Maastricht party in parliament, the centre-right PSD, in disarray and in search of a new leader. But the government managed to strike a budget deal with the smaller conservative Popular party by making concessions on taxes at little cost to its revenue plans for this year.

Next year's budget could well be a bigger stumbling block for a government that has no guarantee of lasting out its full four-year term. But its security has been somewhat strengthened by the victory of Mr Jorge Sampaio, the Socialist candidate, over Mr Cavaco Silva in the elections for president of the republic in January. In political crises, the presidency has important powers.

The challenge of meeting budget targets appears less daunting after last year. The tax collectors did better than expected. The public deficit, according to official figures, fell to 5.2 per cent of gross domestic product, compared with an initial forecast of 5.8 per cent. As a result, the 4.2 per cent target set for this year appears more credible. The reduction has been achieved so far without any increase in tax rates. But economists still believe it will be a tall order for Portugal to reach the Maastricht target of 3 per cent in 1997 and hold its deficit below that level. They also doubt if public debt will fall below 70 per cent of GDP – above the Maastricht target of 60 per cent – in spite of revenues from privatisation, which will go mainly towards reducing the debt burden.

Plans for the remainder of this year involve sales of state holdings worth at least $2.5bn, the biggest annual amount since privatisation began under the last government.

António Guterres, celebrating the Socialist victory last October

These include a second global offering of shares in Portugal Telecom, the largest quoted company; about 40 per cent of the Petrogal oil group; a further tranche of Cimpor, the country's biggest cement producer; and the remaining 80 per cent of investment bank Banco Fomento e Exterior. This will virtually complete plans for privatising the financial sector, nationalised 20 years ago, with a residual 13 per cent government stake in Banco Totta e Açores remaining to be sold. Only one banking group, Caixa Geral de Depósitos, together with its insurance arm, would remain under state ownership.

The social pact agreed in January sets a 4.5 per cent guideline for wage increases in the private sector, and a staged reduction in the working week from 44 to 40 hours, in exchange for more flexible hours and job demarcations – conditions that only the Communist-led CGTP union found unacceptable. Public sector wage increases were earlier set at 4.25 per cent. The Bank of Portugal is hopeful that consumer price increases can be kept to 3-3.5 per cent for the year, and that inflation psychology has finally been overcome.

Interest-rate policy remains geared to keeping the escudo stable against the German mark and the currencies of Portugal's other main trading partners in the EU. The Portuguese currency has been remarkably steady in recent months. Proof of its resilience came with the Spanish general election this month; the markets' disappointment with the centre-right's narrow victory hit the peseta; but the escudo did not budge.

The "stable escudo" policy in force since the early 1990s has, however, had its cost in terms of economic growth. Unemployment, which was 4.5 per cent four years ago, has risen to 7.2 per cent.

Mr Daniel Bessa, who resigned as economy minister last week, says the previous government committed a "mistake" with its policy of either not following, or following only in part, the successive devaluations of the peseta which have taken place since 1992. "So here we are," he complains, "with a higher escudo than the one I would like to have."

Competitiveness has been affected. "European imports are increasing very quickly, mostly from Spain," he says. At the same time, Portuguese exporters in sectors such as clothing and shoes are facing problems in export markets, especially from Italian rivals. "Everywhere we feel the effects of Italian devaluation," says Mr Bessa. Companies are forced to export at very low margins, and at the same time are under financial pressure from relatively high interest rates. In textiles, which account for around 30 per cent of Portuguese exports and a quarter of the industrial workforce, the government is alarmed by EU moves to accelerate the lowering of barriers on Asian producers.

Economic growth this year is officially forecast at 2.5-3 per cent, after an estimated 2.5 per cent in 1995, although private sector economists put both figures slightly lower. Mr Bessa hopes that growth will be underpinned by more foreign investment projects, such as Ford and Volkswagen's "people-carrier" joint venture, which started production last year and which he reckons will alone contribute an increase of 0.9 percentage points to Portugal's GDP.

But he adds: "In my opinion, it will be very, very difficult to have a rate of growth above the European average." The only way Portugal can regain competitiveness, he says, is by continuing to lower inflation and interest rates – unless it devalues, but that, Mr Bessa says, would be worse.

Trying to meet the criteria for European monetary union is the overriding priority – as much for the new government as it was for Mr Cavaco Silva's. It is a question not just of the euro, Mr Bessa says, but of power in Europe.

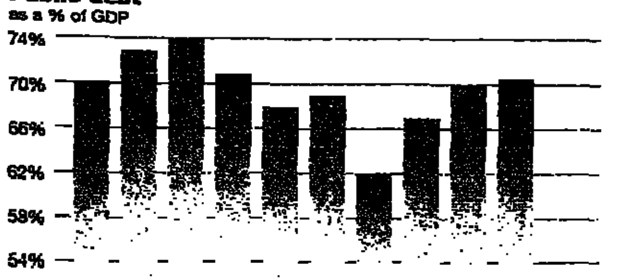
As the EU prepares to accommodate central and eastern European countries, Portugal is anxious that its voice – from the other end of the continent – should be heard. "In a peripheral country like Portugal, if we fail to meet the Maastricht criteria we will miss out on much more than a single currency."

An aerial view of Lisbon

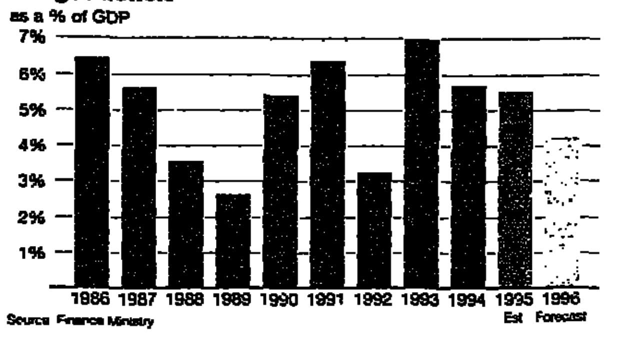
■ **The economy:** by Peter Wise

Budget passes its first hurdle

Public debt
as a % of GDP



Budget deficit
as a % of GDP

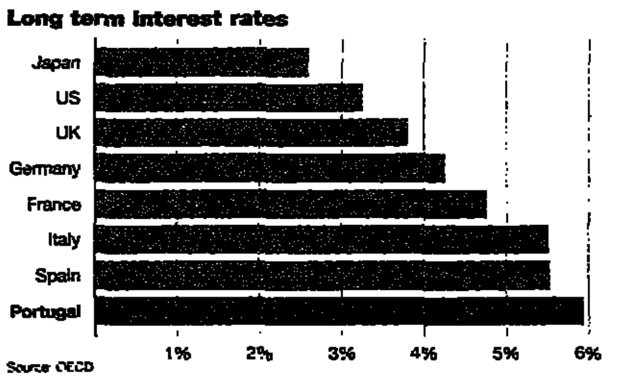


Overall living costs*

	Overall living costs		Overall living costs excluding housing	
1	Copenhagen	120	Copenhagen	126
2	Paris	113	Helsinki	114
3	Berlin	111	Vienna	108
4	Vienna	111	Berlin	107
5	Helsinki	109	Stockholm	105
6	London	107	Paris	105
7	Amsterdam	103	Brussels	100
8	Stockholm	103	Amsterdam	98
9	Brussels	100	Dublin	94
10	Rome	94	Rome	92
11	Dublin	92	London	89
12	Madrid	88	Madrid	85
13	LISBON	80	Athens	82
14	Athens	80	LISBON	77

*1995 figures: Brussels = 100 Source: Eurostat

Long term interest rates



The government has broadly lived up to its promises. But its goals may still be out of reach

Mr António Guterres, Portugal's socialist prime minister, undertook what critics said was an impossible task when his centre-left government assumed office last November. He promised a 1996 budget that – without raising taxes – would both increase social spending and cut the fiscal deficit to meet the convergence criteria for European monetary union.

Even if such a budget could be put together, detractors said, it would either divide the government or be rejected by parliament, where the ruling Socialists are four seats short of an overall majority and the opposition parties could not easily support the proposals without loss of face.

The scorn heaped on the government's ambitions clearly added piquancy to the satisfaction felt by Mr António Sousa Franco, the finance minister, when the bill was approved in parliament this month and he was able to wave before his opponents a copy of what they had previously called "the impossible budget".

Not only did the government remain united behind the budget, which was approved after a deal on relatively minor taxation adjustments between the Socialists and the right-wing Popular party, but the proposals also won the support of business organisations as being close to the best compromise possible for the Portuguese economy.

Against the expectations of many, the government has delivered proposals that broadly live up to what it had promised. But achieving the goals set out in the budget, especially in a European context of decelerating economic growth, may prove more difficult – to the extent that some analysts are already beginning to use the word "impossible" again.

Success in attaining the budget's objectives largely depends on two central issues: the strength of economic growth and the government's ability to increase fiscal revenue by clamping down on tax evasion and fraud. Faltering progress on either front could lead to a budgetary overrun, weakening the minority government's political position and threatening Portugal's ability to meet the Emu criteria.

Inflation has fallen to its lowest level from more than 30 years, reaching a year-on-year rate of 2.5 per cent in February. But Portugal currently fails to meet any of the other Emu targets for public debt, the budget deficit or interest rates on government bonds.

> Public sector companies are reducing their workforces

Some economists believe it would be more realistic for the country to contemplate joining Emu at a later stage. But Mr Guterres' government remains determined to secure Portugal a place among the first group of countries to adopt a single European currency.

The Socialists believe the fiscal restraint required to meet the criteria makes sound economic sense for Portugal and should be implemented regardless of Emu. Mr Ernâni Lopes, an independent economist and former finance minister, agrees. "Meeting the targets implies inevitable social and economic costs," in terms of a higher unemployment and company failures, he says. "But if Portugal puts off acting now, we will have to pay a much higher cost in the future."

One of the most painful costs could be rising unemployment, particularly as Portuguese industry has to restructure to improve competitiveness – a process that will involve a substantial level of company closures – and big public sector companies are reducing their workforces. However, *growth is forecast* to be sufficiently strong this year to keep the jobless rate stable at about the 1995 level of 7.2 per cent.

The government also fears that failure to take part in Emu would leave Portugal isolated on the periphery of Europe, with little influence over EU policy. "If we fail to meet the Maastricht targets, we will miss out on much more than a single currency," says Mr Daniel Bessa, the former economy minister. "It is also a question of status and power within Europe. If we delay joining, Portugal will be put aside from the process of European decision-making."

Mr Sousa Franco has targeted a reduction in the budget deficit to 4.2 per cent of GDP in 1996 from 5.2 per cent last year. This is consistent with Portugal's plans to meet the Emu targets, which require a deficit of 3 per cent of GDP at the end *of 1997. But it will not* be easy to achieve.

"We not only have to attain a deficit of 3 per cent of GDP, but also maintain that level in the future," says Mr Miguel Namorado Rosa, an economist *with Banco Comercial* Português. "It is not clear that such a figure could be sustained."

The deficit reduction is to be achieved despite an increase in social spending to 47.3 per cent of total expenditure this year from 45.6 per cent in 1995. A proposal to spend Es840bn on education – 12 per cent more than in 1995 – is the biggest planned increase.

Spending cuts are to be made in the operating budgets of several ministries, including defence, foreign affairs and justice. But the deficit is largely to be reduced through increased tax revenue, which is forecast to grow by 7.9 per cent this year to Es5,338bn.

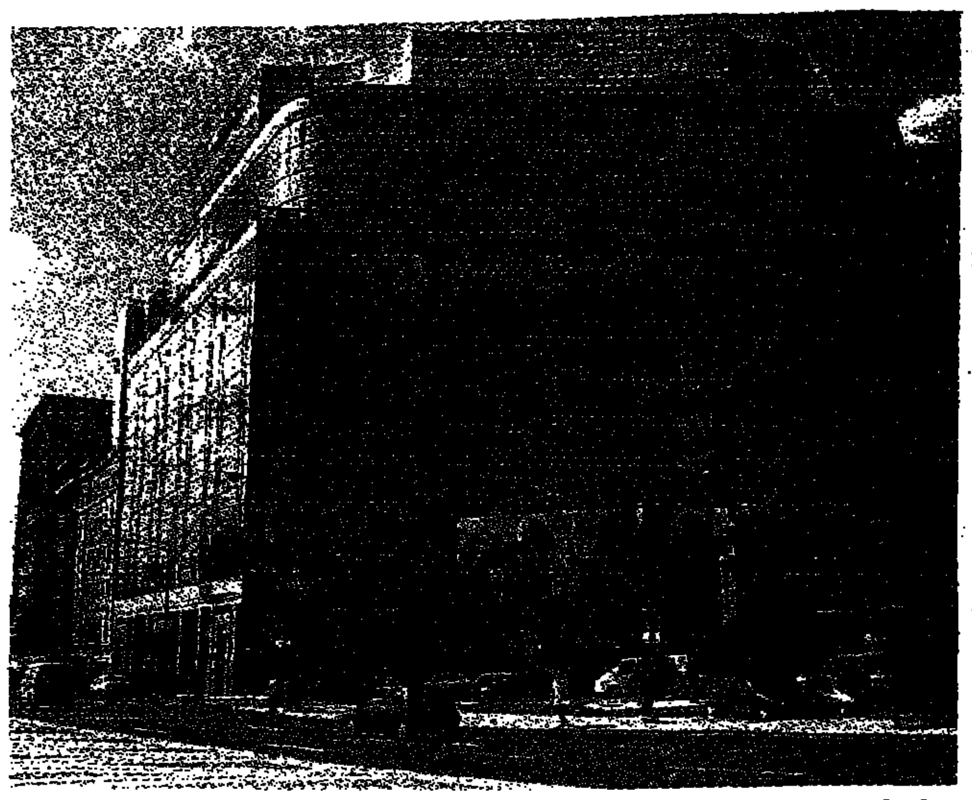
The government is placing its confidence largely in stronger economic growth, which would increase tax revenue, as well as more efficient tax collection. It forecasts GDP growth of 2.5-3 per cent in 1996, up from unofficial estimates of below 2.5 per cent in 1995. It aims to stimulate growth by increasing state investment by 20 per cent to Es397bn in 1996, which is mostly to be spent on transport infrastructure.

Mr António de Sousa, governor of the Bank of Portugal, considers that several large foreign investment projects which are nearing full production capacity in 1996 will support growth in Portugal, despite the forecast slowdown in Europe as whole. Mr Bessa says sales by AutoEuropa, a car plant jointly owned by Ford and Volkswagen and the biggest foreign investment ever made in Portugal, will alone account for 0.9 percentage points of GDP growth this year.

Another big project for which there are high expectations is Expo 98, a world fair to be held in Lisbon. The 1996 fair is also acting as a catalyst for a large-scale commercial real estate development. A university study estimates the project could create as many as 156,000 jobs, although not all would be permanent. That is more jobs than would be created by 50 AutoEuropa plants and is seen, by many economists as an almost unachievable objective. The word they are using, in fact, is impossible.

Economic outlook (percentage growth)

	Finance Ministry 1995	Finance Ministry 1996	OECD 1996
GDP growth	2.5	2.75	3.2
Private consumption	1.7	2.0	1.9
Public consumption	2.5	2.0	1.5
Gross fixed capital investment	6.4	6.5	8.0
Exports	12.5	11.6	8.9
Imports	12.2	10.7	7.3
Current account (% of GDP)	n.a.	-2.0	-0.1
Public sector balance (% of GDP)	-5.2	-4.2	-4.3



A shopping centre and cinema complex in the centre of Lisbon
Sarah Provan

Main macroeconomic indicators (year-on-year change)

	1991	1992	1993	1994	1995*	1996#
GDP (1990 = Es9,585bn)	2.3	1.7	-1.2	1.0	2.6	2.8
[GDP: European Union	*1.1*	*1.0*	*-0.4*	*2.8*	*2.4*	*2.6]*
Private consumption	5.2	4.6	-0.3	0.0	1.2	1.8
Public consumption	3.2	1.5	-1.5	1.4	2.0	2.0
Investment	2.5	5.6	-7.6	4.2	6.0	7.0
Exports of goods and services	2.1	4.9	-0.8	9.4	12.0	8.0
Imports of goods and services	6.4	11.6	-4.8	8.9	11.0	9.0
Unemployment rate (%)	4.1	4.1	5.5	6.8	7.0	6.8
Inflation rate (%)	8.8	8.4	6.6	4.0	3.9	3.8
[EU inflation rate	*5.0*	*4.3*	*3.3*	*3.1*	*3.1*	*3.0]*
Current account (in GDP %)	-0.8	-0.1	-0.2	-1.2	-2.0	-1.0
(billions of escudos)	-95.8	-10.1	132.8	-173.5	n.a.	n.a.
Escudo/DM	87.14	86.45	97.17	102.09	104.92	106.5
Escudo/US$	144.48	134.90	160.80	161.24	150.85	160.0

*=Estimate; #=Forecast. Source: Bank of Portugal

■ **Tax evasion:** by Peter Wise

Certain sins of omission

A clampdown by the finance minister has a target of lifting revenue by 7.9%

Nothing in this world can be said to be certain except death and taxes, according to Benjamin Franklin, the 18th century American diplomat and scientist. What remains far from clear in Portugal is how to make companies and individuals pay the taxes that they should.

Evasion is so rife that, according to their tax declarations, the average self-employed doctor or lawyer in Portugal earns less than a waitress or a construction worker. Almost 70 per cent of companies declare a loss and pay no taxes at all.

Close to 90 per cent of total value added tax revenue comes from the pockets of only 300 big companies. The parallel economy, where no receipts are written and few questions asked, is estimated to represent 15 per cent of gross domestic product.

A clampdown on tax evasion and fraud is one of the main weapons that Mr António Sousa Franco, the finance minister, intends to wield in an effort to lift total tax revenue by 7.9 per cent this year to Es5,338bn, without increasing tax rates. He is also counting on the effect of stronger economic growth.

> Companies suspected of under-declaring will be obliged to pay taxes on the earnings for businesses of a similar size in the same sector

The government is spending Es4bn this year to fight tax evasion and hopes to recoup the equivalent of 2 per cent of GDP, about Es300bn, in lost tax revenue in three years. Improved efficiency in tax collecting is forecast to bring in an extra Es82.3bn in revenue this year, more than half coming from the recovery of outstanding debts. Independent tax specialists say these are optimistic targets.

Taxing companies and individuals on their imputed earnings is the most aggressive measure planned. Companies suspected of under-declaring will be obliged to pay taxes on the average earnings for businesses of a similar size in the same sector. Self-employed architects or accountants who declare an income lower than the minimum national wage, which is less than $250 a month, could be taxed at average rate of their peers.

Tax consultants believe such initiatives need to be backed up by less visible but ultimately more effective measures. "The real answer to the problem lies in providing tax officers with better training in auditing techniques and raising the frequency and *quality of field inspections,*" says Mr Carlos Loureiro, a Lisbon-based partner with Arthur Andersen. "Improving computer systems is also critical. Portugal still does not have cross-checking between corporate tax and VAT payments."

Yet Portugal does have some highly refined tax planning facilities, such as the International Business Centre in Madeira, that operates offshore financial and service centres as well as an industrial free-trade zone and an international shipping register. But specialists agree there is ample room for improvement in national tax collecting.

Because of the high level of evasion by the self-employed, wage earners, whose tax payments are usually deducted at source, carry a heavy burden, accounting for most of the Es997bn that the state expects to raise in personal income tax this year. Total corporate tax revenue is forecast at just under half that and is largely paid by a handful of big companies.

The government now hopes to lighten the tax burden on wage earners who, it recognises, have suffered in the past because tax revenue has mainly been increased at the expense of those who are paying already. "To squeeze salaried employees any further would be to kill the goose that lays the golden egg," says Mr Loureiro. "It would only lead to more evasion."

■ **Banking:** by Peter Wise

The bigger, the better

A takeover wave has been spurred by the need to compete in the global market

A Lisbon bank president sums up the motivation behind takeovers that have reshaped Portuguese banking over the past year in a single phrase: "All of Portugal's banks put together do not add up to a big Spanish bank."

The drive for greater dimension to compete in an increasingly global market led to three aggressive acquisitions by Portuguese banks last year, involving a total expenditure of Es472.7bn. At least one other purchase of a similar scale is imminent.

Banco Comercial Português, then the fifth largest bank, and Império, the biggest insurance company, made a successful Es308bn bid for 100 per cent of Banco Português do Atlântico, the second largest bank. They also paid Es11.6bn for control of União de Bancos Portugueses, a small retail bank that belonged to the BPA group, as part of the takeover.

In a separate acquisition, Mr António Champalimaud, a 77-year-old industrialist and Portugal's richest individual, paid Es153bn for the 50 per cent of Banco Totta e Açores, the third largest bank, which was previously held by Banco Español de Crédito, the Spanish bank.

This rapid process of consolidation has extended the dominion of Portugal's three biggest banks to about two-thirds of the country's total assets from 40 per cent previously. The top five banks now control almost 80 per cent of total assets compared with 55 per cent in 1994.

In less than a year, Portugal has reached a level of banking concentration similar to that in other smaller European countries such as Austria, Belgium, Denmark and the Netherlands in a wave of takeovers that is not yet over.

"Concentration that enables banks to achieve critical mass and reduce costs is an important issue for small countries like Portugal," says Mr Artur Silva Santos, chairman of Banco Português de Investimento, which is seeking to double its own assets by buying Banco Fomento e Exterior, Portugal's fifth largest bank.

BPI's original Es152bn bid for state-controlled BFE was rejected by the government in February. But the bank may make another offer when BFE is privatised by competitive bidding shortly in a sale expected to complete the first stage of consolidation among Portugal's bigger financial groups.

Expansion by Portuguese banks is aimed more at defending their own market from inroads by bigger foreign groups within a single European financial market than at attempting to compete in international markets, where they will always remain relatively minor players.

The banks before and after consolidation
Percentage share of total assets

Current		Before end-1994	
CGD	24	CGD	24
BCP/BPA	20	BPA	15
BPSM/BTA	17	BTA	12
BES	10	BES	9
BFE	6	BFE	7
BPI	4	BPSM	6
Mello	4	BPI	5
Others	15	Others	14

Source: Portuguese Bankers Association/ING Barings

Mr Carlos Tavares, president of Banco Nacional Ultramarino, points out that even if all Portuguese banks were to merge into one, such a group would remain less than half the size of Deutschebank or Crédit Lyonnais.

"A desire to compete in international markets is not a convincing reason for the increasing dimension of Portuguese banks," he says in a recent report. "A more cogent argument is the need to expand their power in the domestic market to bar entry to foreign competitors as legal barriers come down."

Banks are consolidating in a climate of increasingly tougher competition that has resulted in a sharp fall in net interest margins – the difference between the rates at which banks fund themselves and lend to customers – from 5.6 per cent in 1990 to about 3 per cent today.

This has undermined business results because Portuguese banks rely more heavily on interest income – 77 per cent of total income in 1994 – than most of their European counterparts. Banks, which account for 41 per cent of the total capitalisation of the Lisbon stock market, have underperformed the market by 21 per cent over the past four years.

Due to weaker profits, banks as a whole have moved from trading at a 10 per cent premium to the market in 1993 to a current discount of about 30 per cent based on historic earnings. Banks' net profits grew by an average of about 15 per cent in 1995 compared with 1994, buoyed largely by increased income from bond trading.

A combination of several factors has fuelled competition. Nationalisation after the 1974 revolution placed almost 90 per cent of the financial sector under state control. A privatisation programme, begun in 1989, has since reduced state ownership to 38 per cent and it will fall further as the few remaining sell-offs planned by the government are completed this year.

The sector, now dominated by privately-owned banks intrinsically more inclined to compete, has also been freed of many regulatory restrictions, providing banks with the freedom to exercise more aggressive instincts.

New foreign banks began cautiously moving onto the scene from 1985, but they have been arriving at a faster rate in recent years. They have tried to make up for what they lack in branch networks and franchises with competitive products and forceful marketing, further inflaming combative tendencies.

At the end of 1994, foreign banks accounted for 9 per cent of domestic credit and total assets, 8 per cent of branches, 6 per cent of total staff and 5 per cent of total deposits.

"Foreign banks have a small but growing share of the market," say Ms Karen Bradley and Mr Christopher Mallin, analysts with ING Baring Securities in London. "Their relatively low share of total deposits indicates the difficulties they have faced in capturing market share and also reflects the fact that the majority of their business is in the wholesale rather than the retail segment of the market."

As the impact of stronger competition eases, banks appear to be "heading out of the storm," according to a recent report by Ms Bradley and Mr Mallin. "The operating environment will remain difficult ... but the pace of margin erosion will slow, and loan demand and asset quality are expected to improve over the next two years as the economy recovers," they say.

Recent takeovers have left banks that are not among the top three trailing considerably behind in terms of asset size. Banco Espírito Santo, for example, is now the fourth largest group but has a market share that is only half that of the second largest group, BCP.

However, BES has no plans to grow through acquisitions and believes that a niche strategy based on developing its existing customer base is the best way forward.

"Our strategy is to approach the clients we already have as depositors with new products. It is not necessary for us to buy a new bank, or buy new branches from another bank or launch a massive marketing campaign," says Mr Manuel Villas-Boas, a director of Espírito Santo Financial Holding.

"The clients are already there. It's just a question of adjusting our strategy to achieve a greater emphasis on retail products. This is why we feel that organic growth is the best way for the group to expand at this stage. We do not need another bank or another company to gain access to more clients."

COMPANY PROFILE **Banco Comercial Português**

Behind the bland exterior

Ten years ago, it was getting ready to open its first two branches. The name the bank's founders had chosen was as bland and unadventurous as it could be.

But Banco Comercial Português has proved to be anything but bland and unadventurous. By reputation it has become the most ambitious and best-managed of Portugal's banks.

In its first decade it is already Portugal's largest private sector banking group. By stock market value it is the country's second-listed concern after the partly-privatised telephone company Portugal Telecom. An issue of American depositary receipts in 1992 made it the first Portuguese group traded outside the country.

BCP has led in innovation, for instance with Portugal's first stand-alone telephone banking operation. It built up its market by segments, starting with high-income individual clients and medium-sized companies. "Its philosophy is that of a big house with a small-house attitude," says Mr Jorge Jardim Gonçalves, the chairman.

In the Portuguese banking sector, the group is now second in size only to the state-owned Caixa Geral de Depósitos. It can claim to be the biggest force in asset management and also in insurance, where its subsidiaries together control about one sixth of the market.

It leapt to the top rankings a year ago when it succeeded, at its second attempt and against strong opposition, in taking over what was then Portugal's number two bank, Banco Português do Atlântico. In one move, it more than doubled its share of the Portuguese banking market from 9 per cent to about 19-20 per cent.

By that time it already ranked number five in the sector. It began from scratch in 1985, one of a few new banks set up to take advantage of liberalisation and Portugal's entry into the European Community. With just over 200 initial shareholders, it was free of the legacy of bad debts, heavy structures and inefficiencies of the traditional big Portuguese banks, all of which were nationalised in the aftermath of the 1974 revolution and were then still under state ownership.

BCP's potential as a leading national bank became clear in the late 1980s, says Mr Jardim Gonçalves. That was when it launched a separate branch network, under the name NovaRede, aimed at middle income customers and based on low operating costs. But in the early 1990s, he says, it realised that organic growth alone would not be enough to enable it to compete with the bigger groups. Privatisation of the state banks had already begun; it needed to buy.

In early 1994 it made its first bid, for Banco Pinto e Sotto Mayor, then ranked number six. But the government rejected BCP's offer as too low. BPSM came instead to be the centre of the financial empire rebuilt by Mr António Champalimaud, who had controlled it during the dictatorship preceding Portugal's 1974 revolution.

BCP then fixed its sights on Banco Português do Atlântico, the large Oporto-based bank where Mr Jardim Gonçalves had spent eight years as chairman. The government began privatising BPA in 1990, in a plan to reduce the state's holding by stages. After the second stage was announced in 1992, a group of core shareholders joined forces to keep control in Portuguese hands. By the next year, these shareholders, known as the Northern Group or Patriotic Front, had built up a 27 per cent holding, the largest block of shares in the bank.

In 1994, BCP launched the battle for BPA in the country's first hostile takeover bid, offering Es132bn for a controlling 40 per cent stake. But the plan was blocked by the government.

But in January last year, BCP came back, making a joint bid with the Império insurance group for 100 per cent of BPA, including the government's remaining 24.5 per cent stake. The takeover, worth over Es300bn, went ahead in March. To counter it, the core shareholders would also have had to bid for 100 per cent, and were in no position to do so. Led by the Sonae group, they are still pressing a case against the handling of the sale, arguing that the authorities acted illegally.

Some analysts have suggested BCP's rationale for acquiring the larger bank may have been partly to defend itself against the risk of being taken over. But Mr Jardim Gonçalves says there was never any danger. Its largest shareholder, since 1993, is Spain's Banco Central Hispanoamericano (BCH), with 20 per cent, but voting rights are limited to 10 per cent.

> Was the price - when margins were shrinking - too high?

Mr Jardim Gonçalves brushes aside the question whether this restriction might conflict with EU norms. "They are the statutes of the bank," he insists.

Shareholding partners are also involved in joint ventures with BCP. These include joint ownership of the Banif private bank with BCH and a French tie-up with Banco Popular Español. Mr Jardim Gonçalves has a firm policy of relying on partnerships for any foreign initiatives. Otherwise, he says, foreign operations are "a big risk".

BCP's policy for BPA, in which it now holds just over 50 per cent, has been to keep its separate retail network – "a good brand, extremely loyal staff, and extremely loyal customers," says the BCP chairman – but to undertake "a real merger at corporate centre level", as well as combining the two groups' operating and computer systems. The expanded branch network is used for "cross-selling" of products such as insurance and investment funds.

"In management terms, it has not been difficult," Mr Jardim Gonçalves maintains, even though BPA's tradition as a universal bank contrasts with the market segmentation approach followed by BCP. "If anyone can really digest BPA, it is probably them," says one Lisbon banker.

BCP's reputation among Portuguese banks remains high. It is one of the few European banks to have 100 per cent provision cover for non-performing loans. Last year it increased its consolidated net earnings by 8 per cent to Es20.2bn.

But banking analysts believe the task of absorbing BPA has been harder than initially imagined. They question the "fit" between the cultures of the two groups, and argue that BCP paid a high price at a time of tough competition and shrinking margins. They note that BCP is now planning to raise extra funds to reinforce its capital ratios, with a rights issue of 27m shares expected in May or June. An issue of up to $250m in preferential convertible bonds is planned. This follows a $500m preference share issue last September.

Mr Jardim Gonçalves says BCP may increase its stake in BPA: it is committed to either placing or buying shares now held by Império, its partner in the takeover, if the insurance group decides to reduce its holding. But he insists that the capital increases are not aimed at carrying out a further acquisition.

The process of "strategic concentration", he says, is finished. The problem of relative size in the market – "our problem was that we had 9 per cent and there were others with 20 per cent" – is now resolved, he says. "It is not important for us to be number one."

David White

Privatisation: by Peter Wise

In the name of democracy

The ambitious programme reflects the socialist government's philosophy

Portugal's new socialist government has embarked on an extensive two-year privatisation programme that is not only more ambitious than any planned by the previous centre-right administration but is also packaged in a different political philosophy.

Sales of state companies, conservatively estimated to raise Es380bn in 1996 alone, are intended to replace the idea of "popular capitalism" promoted by the previous government with the concept of democratic ownership, according to the centre-left Socialists.

Employees, small savers and Portuguese emigrants abroad are to be encouraged by discounts and tax incentives to invest in the planned privatisation of 22 companies in 1996 and 1997, a method first adopted by the Social Democrats, who were defeated in a general election last October.

Mr António Guterres, the prime minister, told parliament that privatisation would promote greater social justice, equality of opportunity and economic integration. This, rather than the size of the public sector, was today the true difference between left and right, he said.

"To privatise is to democratise," said Mr António Sousa Franco, the finance minister, rejecting the notion of "popular capitalism" as "ideologically compromised". But it has not become clear what concrete differences the new label implies.

Focused on banks and insurance, sales of companies nationalised after a left-wing revolution in 1975 have raised more than Es1,300bn over the past seven years, making Portugal the industrialised world's third largest privatising country after Britain and New Zealand, according to the Organisation for Economic Co-operation and Development.

The new government's programme centres on industry and services, including steel, shipbuilding, oil, chemicals, mining, gas, paper pulp and tobacco as well as airport management and motorway construction and operation. The biggest sales this year will be global offers of Portugal Telecom, Electricidade de Portugal, the national power company, and Cimpor, a cement producer.

Privatisations planned for 1996-97 include:

- **Telecommunications:** a global offer of a second tranche of 22 per cent of Portugal Telecom is expected before mid-1996. The privatisation of 27 per cent in June 1995 raised Es147bn.

An international partner is expected to acquire an additional 20 per cent of PT early next year. This will require repealing a law that limits private sector ownership of the group to 51 per cent. The government has indicated that 20 per cent of PT will be kept in state hands until the full liberalisation of Portugal's telecommunications sector, which has to be completed by 2003 under EU rules but is likely earlier.

> Timing will be crucial to the success of the Telecom sale

- **Energy:** more than 20 per cent of EDP, the holding company for Portugal's power generation and distribution utilities, is to be privatised in another global offer at the end of 1996 or in early 1997. Further holdings will be offered subsequently but the state is to retain a holding of 51 per cent and management control.

The next phase in the privatisation of Petrogal, Portugal's biggest oil company, will not take place before 1997. Petrogal is 55 per cent controlled by the state with the other 45 per cent being held by a consortium of Portuguese investors. The privatisation of Gás de Portugal/Transgás, two linked gas utilities, is to be undertaken once the project for introducing natural gas to Portugal has been completed, probably in 1997.

- **Cement:** 45 per cent of Cimpor is to be sold in 1996. This will reduce the state holding to 35 per cent following the privatisation of 20 per cent in 1994.
- **Tobacco:** 60-65 per cent of Tabaqueira (tobacco) is to be sold as a single block through a tender offer in 1996. The state will later sell its remaining holding on the stock market or under the terms of a sale option agreed with the buyer of the initial 60-65 per cent.
- **Pulp and paper:** plans to continue the privatisation of Portucel Industrial (pulp and paper) are based on a strategy to encourage Portuguese companies to be more competitive in the global paper sector. This means a second tranche will not be sold until 1997, after a restructuring of the group.
- **Banking:** the state's 80.5 per cent stake in Banco Fomento e Exterior, the fifth largest financial group, is to be privatised shortly by competitive bidding. The state's remaining 13.2 per cent of Banco Totta & Acores is to be sold on the stock market in 1996. Caixa Geral de Depósitos, Portugal's largest banking group, is to remain state-owned, at least for the medium term.

Secondary offerings in Cimpor and Portugal Telecom, two listed companies whose privatisation was begun by the previous government, will be the first global offers made by the new socialist administration.

It proposes to offer 45 per cent of Cimpor, worth about Es40bn at current prices. This will reduce the state holding to 35 per cent following the sale of 20 per cent in Portugal's first international offer in 1994 – when an early price fixing followed by a drop in the market dampened investors' interest.

Analysts say cement provides investors with a secure entry to Portugal's high growth infrastructure sector, which is being fuelled by large inflows of European Union funds, without having to incur the risk of investing in the construction sector, where balance sheets are generally poor.

An upturn in construction involving both the public sector and new housebuilding is forecast to produce record levels of cement consumption, with demand growing by an estimated 2-2.5 per cent over the next three years on top of 5 per cent growth in 1995.

Cimpor is a cash-rich company that ended 1995 virtually debt-free. Clarification of how the group plans to use its cash, prior disposal of financial assets and a clear indication of the government's plans for the remaining state holding are seen as the main conditions for a successful offer.

Timing will be crucial to the success of the Portugal Telecom offering. The company has enjoyed high growth after a global offer of 27 per cent last June. Shares in the group reached a record high earlier this month after it reported a 44 per cent lift in net consolidated profit to Es36.2bn in 1995 from Es25.1bn in 1994. The shares have gained more than 27 per cent since the first tranche of PT was sold at Es2,800 a share and the second tranche of 22 per cent is worth more than Es140bn at current prices.

Analysts consider Portugal Telecom could safely seek a slightly higher price than a Greek telecommunications offer expected in the first half of 1996. But delay into the second half would bring the operation into possible conflict with a Deutsche Telecom offering.

Mr Guterres makes no secret of wanting as many privatised companies as possible to remain under Portuguese control to provide the country with economic groups big enough to compete globally. This means the government is likely to focus on sales made through direct negotiation and purchase tenders rather than public offerings, except for a few groups too big to be bought by Portuguese investors alone.

However, the Socialists, under pressure from the European Commission, are also preparing legislation that will ensure there is no limit on the acquisition of privatised companies by European Union investors. The previous government had set some case-by-case restrictions on foreign holdings of privatised stock that have led to complaints of illegality.

"We particularly hope to encourage foreign investors to acquire holdings in companies where they can contribute valuable know-how and an international dimension," says Mr Daniel Bessa, the economy minister. He cites Petrogal, the oil company, as a possible example.

Derivatives: by David White

Oporto looks to its futures

A new market should start soon in the northern city's former stock exchange

By a particularly unfortunate bit of timing, plans for a derivatives market in Portugal came to a head in the year of the Barings fiasco. Already postponed, the launch was scheduled last summer. Now, after further hesitations and hitches, futures trading is set to start in the next few weeks, bringing back to life what used to be the Oporto stock exchange.

The scheme promises to maintain for the northern Portuguese city at least a symbolic role as a second financial centre after Lisbon. Oporto, with a long and solid commercial tradition, has had a stock market for more than 100 years – mostly a modest presence, although it has had its active moments.

Closed after the 1974 revolution, reopened in the 1980s, it has looked for a new direction since the Lisbon and Oporto markets were privatised five years ago, in Portugal's equivalent of the Big Bang. After a couple of years looking at the experiences of international markets, it formally applied for authorisation to open trading in futures and options.

But the larger Lisbon exchange was thinking along the same lines and put in its application for a rival project. There was clearly not room for both.

After negotiation with the authorities, a compromise was reached, giving each centre its exclusive specialisation: the cash market in Lisbon and derivatives in Oporto. In mid-1994, the Oporto exchange in effect sold its cash business and ceased stock trading. Those equities which until then had been listed only in Oporto were transferred to Lisbon.

But it will have taken about two years to get the new market going in place of the old one. "There has been a delay," admits Mr Manuel Alves Monteiro, chief executive of the Oporto exchange. Technical problems have not been the only reason. "Many people were not prepared to see a derivatives market in Oporto," he says.

The hold-up is understood to reflect reservations about the project within the Bank of Portugal and the Securities Markets Commission (CMVM), the two bodies which will have supervisory responsibility. The Oporto exchange has addressed one worry – the lack of training in this kind of market in Portugal – by running courses for banks and companies. In the last few weeks, work has been going on to complete the details of a legal framework.

The principal model for the scheme is Spain's Meff, since 1990 one of the fastest-growing among Europe's derivatives markets. Barcelona, where futures and options on Spanish bond and money-market contracts are traded, is assisting Oporto with the technology for fully-automated trading and an integrated clearing system.

The infrastructure will be of a kind that investors are already familiar with, says Mr Alves Monteiro. "Also, many clients for our market will come from Spain."

The first futures contracts will be based on a new, purpose-designed 20-share index, the PSI-20 (the initials stand for Portuguse Stock Index), and on a 10-year notional treasury bond. These are similar to the main instruments in the Spanish market.

> The risk is that business will be lost to larger exchanges, such as the UK's Liffe

Unlike Spain, however, where derivatives operations are split between the Barcelona fixed income market and a variable income market in Madrid for trading in stock and index futures and options, they will be concentrated in the one market.

Mr Alves Monteiro envisages expanding the range of contracts traded, to include short-term interest rate futures and options in the index. Priorities and timing, however, will depend on how well the market reacts in the initial stages, he says.

The big question is whether the underlying securities markets have sufficient dimension, and whether there will be enough liquidity to sustain the Oporto venture. Competition between international derivatives markets is already growing and is expected to intensify if and when Europe moves into the single currency phase of monetary union.

Some investment bankers predict a tough start for the new exchange, considering the limited number of institutions involved in the Portuguese stock market and the low level of international involvement in the debt market. Only 3 or 4 per cent of Portuguese government debt, they say, is held by foreign investors, compared with around 30-35 per cent in Spain's case. However, backers of the venture say it will lead to greater internationalisation.

In an indication of interest building up ahead of the Oporto market opening, the first derivative contract based on a Portuguese index was launched in January by Bankers Trust, with dollar-denominated warrants, traded in Luxembourg.

Mr Alves Monteiro is anxious to lose no more time in getting the market under way. The risk is that business will be lost to larger exchanges such as the UK's Liffe, taking advantage of greater liquidity and lower costs. "Yes, I'm worried," he confesses. "I have several times told the authorities that that's a danger. We deal with that danger every day."

This month the Oporto exchange obtained an important change in its regulations, enabling banks, and not only brokers and dealers, to become members. Mr Alves Monteiro considers their presence as both trading and clearing members to be vital to the market's prospects. "For the future on the long-term rate there can only be a market with banks," he says.

Before the launch, the exchange is moving to new, modern premises, abandoning the rented rooms where stock trading used to take place in a monumental 19th-century building belonging to the city's Commercial Association. It has changed its name from Bolsa de Valores do Porto to Bolsa de Derivados do Porto, to match its switch in activity. The main computers and a central team will be located in the city, although the automated system allows trading to be done anywhere in the country. Most of the training for the venture has been carried out in Lisbon, where the derivatives exchange also has offices.

How big a market is it likely to be? Mr Alves Monteiro says an optimistic prospect would be to achieve a size of 20 or 25 per cent of the Spanish derivatives market. On a pessimistic estimate, the proportion might be only 5 or 10 per cent. But he is reluctant to make forecasts. In a remark that might seem paradoxical from the chief executive of what is set to be Europe's newest futures market, he says: "The predictions made by other exchanges have taught us not to think very much in the future."

COMPANY PROFILE **Barclays Bank**

English culture, but no queues

Barclays Bank, a small player that has successfully exploited a niche strategy amid the growing concentration of Portuguese banks, tiptoed into the country in 1985, opening a single branch in central Lisbon aimed at corporate customers.

By the time Barclays was celebrating the tenth anniversary of its Portuguese operations with a gala performance of works by Henry Purcell and Benjamin Britten at Lisbon's São Carlos opera house last November, it had established a network of 70 branches with about 600 employees.

Barclays Portugal, the only British bank in a traditionally Anglophile country, posted a net profit of Es1.24bn in 1995, up from Es1.02bn the previous year. The bank's total assets were Es305.4bn, down 2.6 per cent, while customers' deposits increased 17.9 per cent to Es192.8bn.

The bank sees 1990, when it began offering accounts to individuals, as the turning point of its move into Portugal. Until then, Barclays had concentrated on the multinational and Portuguese corporate sector. But, despite achieving strong results, it was dissatisfied with the prospects for growth.

In a second stage of development, the bank engaged in detailed studies before targeting the retail and private banking sectors. At the same time, it expanded into fund management, life insurance and car purchase finance. In 1993, Barclays was one of the first banks to introduce telephone banking into Portugal.

Barclays now aims to consolidate its two niche markets: corporate banking services for Portugal's leading companies and what it calls premier banking, a product aimed at high net worth individuals involving a high level of personalised service and advice.

"We offer a friendly, queue-free service, says Mr João Freixa, assistant general manager of Barclays Portugal. "People at the upper end of the market are sensitive to service, remuneration and reputation. Our aim is to provide that by having a bank with a branch concept different from that of many other banks."

Barclays' branches in Portugal operate on the lines of small sales offices and aim to provide more friendly personal contact than Portuguese customers have been used to, says Mr Freixa. "We're very much a bank staffed with local people, but with the culture of an English bank."

Barclays has proved to be a leading innovator at a time of rapid expansion and modernisation for the Portuguese banking sector. "We came up with something quite new for Portugal, which was to pay more," Mr Freixa says. By taking advantage of the bank's small structure, "we were able to remunerate accounts on better terms than was the normal practice," he says.

When Barclays began in Portugal, it was one of only four foreign banks competing in a highly regulated market. The others to request licences after the banking sector was opened to foreign institutions in 1984 were Chase Manhattan, Citibank and Banque Nacional de Paris.

In 1985, more than 90 per cent of Portuguese banks were state-owned and, to a certain extent, politically motivated, says Mr Freixa. They were not allowed to lend above credit ceilings fixed by the Bank of Portugal. "Many banks had too many staff and were used to traditional banking relations, with controlled interest rates and even commissions that were largely regulated.

"The foreign exchange market and the debt market were virtually non-existent," he says. But the entry of new foreign banks into the market and their interest in these areas began to stimulate competition: "We were starting from scratch so we could create a bank which would prove more efficient than a more established bank with many more staff and older computer systems."

There was a lot of liquidity in the market as the Portuguese are traditionally big savers. But that is being reversed following the introduction of credit and direct debit cards. Portugal has leapfrogged much outdated technology and adopted the most modern systems. In particular, Multibanco, an electronic payments system shared by all banks in Portugal and based on a national network of automatic teller machines, has proved a big success.

Barclays' main concern is to maintain the capacity to grow. "Private banking is exceeding our expectations," says Mr Freixa. "In Portugal, there is limited room for expansion. But we are still young, our customers are loyal and we continue to attract new ones."

Sarah Provan

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SLOVENIA

Old row blocks new start

A dispute with Italy over property rights is impeding the country's European aims, write Kevin Done and Gavin Gray

Slovenia is planning to apply for full membership of the European Union later this year in an attempt to ensure that it is not relegated to the also-rans in the process of EU enlargement.

Earlier this month it set itself the target of achieving full EU membership by 2001 in the hope that it can avoid lasting damage from its protracted bilateral wrangle with Italy, whose use of its power of veto in Brussels has hitherto slowed Slovenia's progress towards closer formal EU integration.

Slovenia, the most developed of the six former Yugoslav republics, and the most prosperous of any of the states to emerge from former communist central and east Europe, thinks it should be at the front rather than the back of the queue to join the EU.

The country's economy has developed strongly during the past three years with growth in gross domestic product (GDP) of around 5 per cent a year in both 1994 and 1995.

Inflation has fallen to around 8 per cent and foreign exchange reserves have risen rapidly. It is also in the final stage of executing a landmark foreign debt deal with western banks which should finally allow it to extricate itself from the debt problems of former Yugoslavia and to build an independent presence in the world's capital markets.

The country and its 2m population have enjoyed several years of political stability since gaining independence in the summer of 1991, remaining at a distance from the disastrous wars waged in the Balkans by its former partners in the Yugoslav federation.

The government of prime minister Mr Janez Drnovsek, has been hit recently by the defection of one of its main coalition partners, the former-communist United List of Social Democrats (ZLSD). Mr Drnovsek is confident, however, that his centrist coalition government of Liberal Democrats and Christian Democrats will hold together until the general election due this autumn.

Despite this record of stability and progress the Alpine republic's search for closer formal links with the EU – the item at the top of its international agenda – has been thwarted to date by its long-running dispute with neighbouring Italy. Rome is still blocking the signing of Slovenia's association agreement, stopping it from crossing the first hurdle towards eventual EU membership.

The row has arisen from Rome's demands for Italian citizens, or their descendants, to be able to recover property owned in what was once Italy's and is now Slovenia's part of the Istrian peninsular. The Italian government has been insisting that the property should be returned to previous Italian owners, if it still under the control of the Slovenian state, and that otherwise, if the property is for sale, former Italian owners should be given preferential purchase rights.

Rome finally allowed association negotiations with Ljubljana to begin a year ago – after protracted initial delays. A deal was quickly reached in Brussels and was initialled last summer. For the past nine months, however, Slovenia has suffered the frustration of Italy vetoing the signing of the association agreement.

This is preventing it from joining the nine other countries from east Europe that have signed association agreements and which are already participating in Brussels' so-called "pre-accession strategy" for countries from central and east Europe.

Initial hopes in Slovenia that the agreement could be signed during the six-month Italian EU presidency which began in January have faded fast. Rome has become ever more preoccupied with domestic politics and next month's general election.

The threat to Slovenia's EU ambitions is clear. "Momentum is building up," says a senior foreign diplomat in Ljubljana. "Without a signed association agreement, Slovenia cannot take part in the structured dialogue with the EU. It will simply not be part of the central and east European enlargement process."

Formal negotiations with some east European countries are expected to begin from 1998 in the wake of the EU's intergovernmental conference. There are nine candidates at present, but Slovenia is not yet one of them.

"Economically Slovenia is de facto the best placed of all for EU membership, but de jure it is in tenth place," says Mr Zoran Thaler, Slovenia's foreign minister.

The dispute with Italy has its origins in the last days of the second world war, when Yugoslav forces fought their way to the city of Trieste, pushing the Yugoslav-Italian frontier 50 kilometres west of its pre-war position.

A series of treaties culminating in the Treaty of Osimo in 1975 eventually allotted part of the territory to Italy, including Trieste, and part to Yugoslavia including the coastal towns of Koper, Izola and Piran.

A large number of ethnic Italians fled the Yugoslav-administered zone for new lives in Italy. In 1983 the two countries signed a further agreement in Rome which committed Yugoslavia to paying Italy $110m in instalments as compensation to Italians who had lost their houses.

Ljubljana considers that Italy is now seeking to re-open these treaties by taking advantage of Slovenian independence to demand that compensation also be given through the return of the original property. It is a demand that Slovenia has rejected on the basis that its legislation bars foreigners from owning property.

"Italy has raised issues from the past and used them to try to obtain bilateral concessions," says Mr Drnovsek.

Slovenia accepts that if it is to become a member of the EU it will have to amend its laws to let EU citizens buy property, including land.

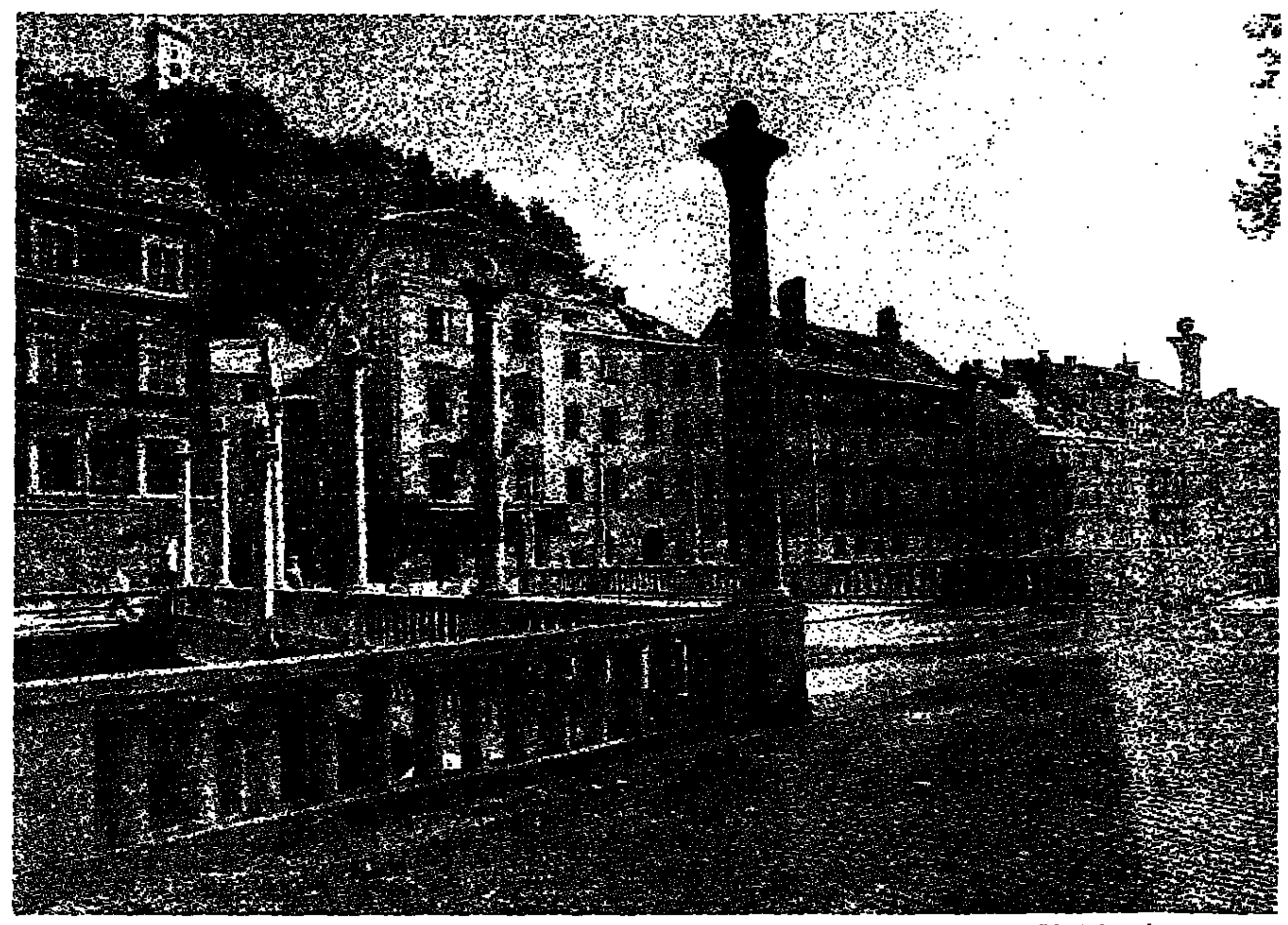
In a nod to Rome the parliament declared this month that it was willing to "accelerate" the adoption of legislation on foreigners' property rights "in accordance with the European standards". In practice, however, Ljubljana still resists demands that it should already go down this road in its association agreement, claiming that it is a demand that has not been made of other EU candidate states.

The dispute with Italy has exposed considerable contradictions in Slovenians' attitudes towards Europe.

From its outset in the late 1980s the Slovenian independence movement was strongly pro-European, albeit in an ill-defined way. Slovenians associated Yugoslavia with the Balkans and corruption.

Independence represented a chance to be in Europe, a world they believed was fair and ordered. For Slovenians, Italy's handling of this dispute is strongly reminiscent of how Belgrade used to manage Yugoslavia.

Recent opinion polls still give strong support, of about 70 per cent, for the idea of Slovenia joining the EU. But when asked if they would still support membership at the price of permitting foreigners to be able to buy land, an equally overwhelming majority of Slovenians were opposed to the idea.



Ljubljana, capital of Slovenia: the country is keen to align itself with the new west rather than the old east, despite the political obstacles

Slovenia's leaders have become bitter about the way Italy has behaved and about the failure of other EU members to overcome Italy's veto.

"In Slovenia we realised with considerable surprise that the EU is in fact far from some ideal democratic association such as we imagined in the past. We realised that within it there is a continuous bargaining of interests, often entirely without principle," says Mr Drnovsek.

The delay over the association agreement has tended to obscure Slovenia's wider achievements in bringing its economy more into line with the EU and in the process overcoming the loss of its main markets both in east Europe and in former Yugoslavia.

The Czech Republic is often lionised as the top-performing central European state, but Slovenia believes that it deserves this mantle.

Its GDP per capita in 1994 was $7,000, according to the Vienna Institute for Comparative Economics, compared with $4,000 for Hungary, then the second richest east Europe state. At current growth rates Slovenia is already believed to have overtaken Portugal and Greece, the EU's two poorest members.

"We already meet three of the five Maastricht convergence criteria and I think we will soon reach the remaining two," says Mr Drnovsek.

The country has reached this position just five years after independence thanks largely to the success of its manufacturing industries in finding new export markets in the European Union, which already account for around 70 per cent of the country's total exports.

At the same time it is seeking future growth in its former eastern markets. At the start of 1996 it became a full member of the Central European Free Trade Agreement (CEFTA) alongside Hungary, the Czech Republic, Poland and Slovakia.

The port of Koper is becoming increasingly popular as a supply hub for the rest of central and eastern Europe and is already the largest sea port for Austria, Slovenia's land-locked northern neighbour. To enhance further this regional role the country is spending heavily on the development of its infrastructure, in particular on the east-west and north-south motorway axes.

The east-west route will link the country's main economic centres of Ljubljana, Celje and Maribor, and is part of the planned European "Corridor 5" that is to run eventually from Barcelona in Spain to Lviv in Ukraine. Around $2.3bn is being invested in Slovenia on the east-west route, with 56km of new motorways to be opened this year.

In the hope that the Dayton accords can bring lasting peace to the Balkans, Slovenia is also looking south to its traditional markets in former Yugoslavia as a source of future growth in trade. A large business delegation led by President Milan Kucan visited Bosnia last month in part to promote the role that Slovenian groups can play in Bosnian reconstruction. Ljubljana remains cautious about the short-term prospects.

While Slovenia has been a force for stability in the region, the government of Mr Drnovsek is facing increasing tensions at home, with a general election looming before the end of the year.

The coalition lost its absolute majority in parliament in late January when the United List of Social Democrats, with 14 seats, went into opposition. The remaining two parties, Mr Drnovsek's Liberal Democrats and the Slovenian Christian Democrats, together now control 45 seats, exactly half the seats in the national assembly.

Strains over economic policy and the need for tighter budget restraint and for urgent reform of the country's under-funded pension system, led to the departure of the left-wing United List, a successor to the communist party.

Mr Drnovsek is confident that the votes of a small number of independent MPs will sustain the government in office for the remainder of its term. But it is far from clear what alliance will emerge after the election. In particular the role of the Christian Democrats, the smaller coalition partner, remains ambiguous.

Its leader, Mr Lojze Peterle, Slovenia's first prime minister and foreign minister until his departure in 1994, has been openly plotting with two opposition parties, the Slovenian Peoples Party and the Social Democrats, about a possible new coalition.

■ **The economy:** by Kevin Done

GDP may rise 4.5% in 1996

The strength of the tolar and increasing costs could undermine the expansion

The Slovenian economy has grown strongly in the past two years, and further expansion is forecast for 1996 and 1997 despite warning signs that the country's competitiveness is being undermined by rising costs and the strength of the currency, the tolar.

Gross domestic product (GDP) grew by 5.5 per cent in 1994 and by an estimated 4.8 per cent last year. The government is currently forecasting growth of 4.5 per cent for this year, despite a worrying slowdown in industrial production, which grew by 2 per cent last year compared with 6.5 per cent in 1994.

Inflation has been brought down to one of the lowest levels in the region, the currency is stable, and foreign exchange reserves have risen sharply.

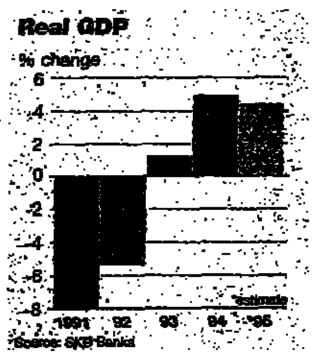
The year-on-year inflation rate had fallen to 8.4 per cent in December from 22.9 per cent in December 1993, and a further fall to around 7 per cent is forecast by the end of 1996.

According to a recent report by Union Bank of Switzerland on emerging markets the Slovenian economy's growth prospects "remain excellent".

Unemployment should continue its downward trend to 13 per cent in 1996 after dropping from 15.5 per cent in 1993, the inflation rate should remain one of "the best in the region", and the government budget deficit should remain "minimal" at around 0.1 per cent of GDP for the next two years.

Slovenia has one of the best economic records of any of the transition countries in central and east Europe, but it also began from a position of relative strength.

Real GDP



The country was the most developed of the six former Yugoslav Republics. With only 8 per cent of the population of former Yugoslavia, Slovenia acccounted for 16 per cent of Yugoslav GDP and 30 per cent of its hard currency exports.

The achievement of the past five years has been to overcome the loss of its markets in former Yugoslavia and other east European countries and to redirect trade towards the markets of the European Union.

In 1995 Slovenia surpassed its level of exports of 1991, finally making up for the loss of the Yugoslav market. According to preliminary figures trade with OECD countries accounted for 73 per cent of exports and 77 per cent of imports last year. The EU alone accounted for about 68 per cent of total trade.

Exports are estimated to have grown by 26 per cent last year (in nominal dollar terms) to $8.6bn, but imports rose even faster by 32 per cent to $9.2bn due in part to the strengthening of the tolar and growing imports of western machinery by Slovenian enterprises as the restructuring of industry gathers pace.

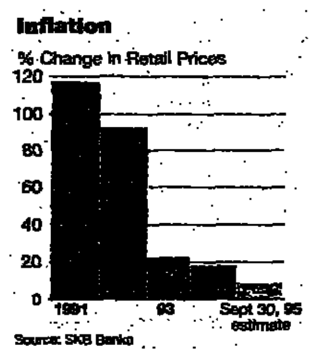
The trade deficit more than tripled to around $600m, but Slovenia continued to run a current account surplus last year of around $200m thanks in particular to strong income from tourism.

Investment in industry has been delayed in many cases by the uncertainties of the drawn-out privatisation process, but the log-jam has now been broken, as the sell-off programme reaches its final stages.

"We are expecting much more enthusiasm from the corporate sector to invest, especially from the second half of this year and in 1997. More capacities will be needed," says Mr Gojko Koprivec, deputy chief executive of SKB Banka, Slovenia's leading publicly-quoted bank.

Mr Mitja Gaspari, Slovenia's finance minister, admits that the real appreciation of the tolar in 1994 and in the first half of 1995 did damage the competitiveness of some sectors of industry, in particular labour intensive sectors such as textiles and shoe making.

Inflation



Investments rose by 16 per cent in real terms last year, says Mr Gaspari, with their share of GDP rising to 23 per cent last year from 18 per cent in 1993. "Investment is gaining pace, and we can count on this for the future with the need for new technology and new capacities. This is important for an economy as exposed to foreign trade as Slovenia's."

Slovenia: key facts

	1994	1995
[illegible]	[illegible]	[illegible]

Components of GDP 1994:	
Private consumption	58.8
Public consumption	20.0
Gross fixed investment	20.2
Change in stocks	0.9
Exports of goods and services	60.6
Imports of goods and services	-55.5

Area:	20,251 sq km
Population:	1.99 million
Head of State:	Milan Kucan
Exchange rates:	$1=119.3 Slovenian tolars Aug '95
	$1=132.1 Slovenian tolars Aug '96

Source: Datastream, EIU

■ **Debt:** by Kevin Done

Legal challenge mars new agreement

A new deal on old debt has pleased creditors and angered Serbia and Montenegro

After more than four years of protracted negotiations with its creditors Slovenia is finally on the verge of severing its links with the foreign debts amassed by former Yugoslavia.

Last month the Slovenian parliament approved a landmark deal between the government and the so-called London Club of 400 commercial banks over the share of former Yugoslavia's foreign debt to be taken on by Slovenia.

The backing from parliament was supposed to be the final piece in the jigsaw needed to complete the country's negotiations with its commercial bank creditors, but recent actions by rump Yugoslavia - Serbia and Montenegro - have threatened the deal at the last moment.

Just as Slovenia issued its final binding-offer notice to western banks in mid-March, US lawyers acting for the National Bank of Yugoslavia and three Serbian banks issued a letter warning creditors against accepting Slovenian bonds. The letter threatened them with unspecified legal action if they proceeded.

After a few nervous days and intense consultations with their lawyers both Slovenia and the western banks have chosen to dismiss the threat.

The ball is now back in Belgrade's court. It appears that the National Bank of Yugoslavia will have to win a court injunction if it is still intent on disrupting the deal.

Slovenia and the western banks have chosen to stick to the original timetable, which has set April 11 as the deadline for creditors to record their loans and June 11 as the final exchange date.

The London Club deal completes the process begun by Slovenia's earlier debt agreements with the International Monetary Fund (IMF) and the World Bank in its first years of independence, and later with its 16 country creditors in the so-called Paris Club.

The resolution of the foreign debt part of Slovenia's unwelcome financial inheritance from former Yugoslavia will open the way for the nation to gain full access to the international capital markets.

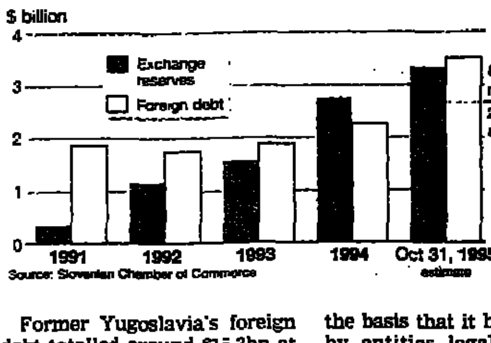
It is now making formal presentations to the international credit rating agencies and is confident that by the early summer it will gain the ratings that will allow it to make a maiden issue in the eurobond market later this year.

Slovenia is the first of the states of former Yugoslavia to finalise an agreement with its foreign creditors. The deal could set a precedent for the commercial banks' separate negotiations with Croatia and Macedonia and ultimately with Bosnia and rump Yugoslavia.

The country has come a long way in the past five years since independence was declared in mid-1991.

One of the country's early strategic objectives was to become an independent member of the international economic and financial community and to decouple Slovenia's country risk from the country risk of what used to be Yugoslavia.

Foreign debt and exchange reserves



Source: Slovenian Chamber of Commerce

Former Yugoslavia's foreign debt totalled around $15.3bn at the end of 1991 with approximately a third each owed to the commercial banks, to multilateral lenders and to bilateral country creditors.

The challenge faced by Slovenia on independence was how to extricate itself from this morass, not least as it faced a clause in the debt agreements with the London Club of commercial banks that made all 10 Yugoslav banks – including two from Slovenia – and the National Bank of Yugoslavia "jointly and severally" liable for the entire debt. Slovenia felt particularly vulnerable as the strongest part of the former Yugoslavia.

About $12.2bn of the total of the $15.3bn of Yugoslav debt outstanding at the end of 1991 was in the category of so-called "allocated" debt, meaning that it could be apportioned to the different Yugoslav republics on the basis that it had been used by entities legally based on their territory. Of this around $1.8bn fell to Slovenia.

The main problems arose in relation to the "unallocated debt", incurred for purposes such as balance of payments credits, and the joint and several liability clause attached to the commercial bank loans.

The key to unlocking these issues was provided by membership of the IMF. The fund decided to recognise all five states of the former Yugoslavia as equal successors and came up with a formula for dividing former Yugoslavia's IMF debt, under which Slovenia took 16.39 per cent of the total.

The same method was then used to split up the unallocated debt to the 16 Paris Club creditors, which totalled around $1.54bn. Of this Slovenia took on $252m. Bilateral deals, agreed in principle in 1993, have finally been concluded in recent weeks with Germany, the US and France. Agreements with most other Paris Club creditors should be implemented by the end of 1996.

The hardest nut to crack has been the London Club debt, where the joint and several liability clause meant there were no legal grounds for distinguishing between "allocated" and "non-allocated" debt or for using the IMF formula.

Initially the banks demanded that Slovenia take responsibility for 28 per cent of former Yugoslavia's commercial bank debt – it totalled $4.2bn at the end of 1991. Slovenia offered to accept only 14 per cent.

After two years of tense negotiations, agreement in principle was reached last summer with Slovenia offering to take on 18 per cent of the debt. The deal was finally accepted by the necessary number of banks holding at least two-thirds of the outstanding debt claims in January this year, with the Slovenian parliament adding its backing late last month.

Slovenia's agreement to take a share of the debt, which was worth $5.576bn at mid-January exchange rates, is aimed at releasing it from the onerous "joint and several liability" clause, allowing it to sever its final links with the debts of former Yugoslavia.

By mid-June Slovenia will issue $822m of government bonds in exchange for its share of the debt, with the same conditions as those contained in the last rescheduling arrangement, the so-called New Financing Agreement (NFA) of 1988, the last debt restructuring deal made by Belgrade before the break-up of Yugoslavia in 1991.

The bonds will mature in 2006 and will carry an interest rate of around 0.8 per cent over the London interbank offered rate (Libor). They will be denominated in D-Marks and US dollars.

NFA creditors from rump Yugoslavia – Serbia and Montenegro – with which Slovenia is still in dispute over its claim for a share of the assets of former Yugoslavia, are excluded from the deal with the commercial banks.

During the past four years the country's international financial standing has been transformed. When it launched its first three-year syndicated loan at the end of 1993, the price was 238 basis points over Libor. For the most recent syndicated loan the price had fallen to below 50 basis points over Libor.

■ **Banking:** by Gavin Gray and Kevin Done

Managers try to fight change

Rationalisation is needed in this overbanked market

The Slovenian government is preparing to privatise the country's two largest state banks in the final stage of the bank rehabilitation programme launched in 1993.

The scheme rescued Ljubljanska Banka, the country's largest bank, and Kreditna Banka Maribor, which is based in east Slovenia.

The two banks had run into severe liquidity problems after independence in 1991, when the economic downturn created a heavy burden of bad debts. Both suffered further damage when the Yugoslav central bank refused to return their foreign currency deposits.

A third regional bank, Komercialna Banka Nova Gorica, was included in the scheme, but it was merged last year with Kreditna Banka to form a new institution, Nova KBM.

Under the rehabilitation scheme, the government assumed responsibility for most of the banks' bad loans and recapitalised them with 30-year government bonds. The Bank Rehabilitation Agency, an arm of the government, became the banks' owner and was given the task of restructuring them. At the same time, another 11 banks that used to form Ljubljanska Banka's regional network were spun off and transformed into independent institutions.

Three years later the two banks have been fully restructured and Nova Ljubljanska Banka (the bank was renamed in 1994) has returned to profit. Problems have emerged at Nova KBM, however, because the two management teams had problems working together, and Komercialna Banka has called for the merger to be annulled.

The issue of privatising the banks is expected to be controversial. The whole issue may well be postponed until after the general election expected later this year.

The Bank of Slovenia, the central bank, is recommending that at least one of them be sold to a foreign investor. It would also like fresh capital to be injected into both banks.

The managers of Nova Ljubljanska Banka are firmly opposed to a foreign takeover and are lobbying for privatisation through a domestic share sale in exchange for privatisation vouchers - a proposal that would neither inject new capital nor even raise funds for the state.

The break-up of the Ljubljanska Banka network and the arrival of new entrants has left Slovenia with more than 30 banks - clearly far too many for a country of two million people. The government has lifted the minimum capital requirement for a full banking licence to DM60m in an attempt to encourage consolidation, but few mergers have resulted.

In one of the few deals to be concluded, Nova Ljubljanska Banka last year bought Posavska Banka, a former subsidiary in the southern town of Krsko. It is also trying to buy four more old subsidiaries in the towns of Domzale, Velenje, Trbovlje and Murska Sobota.

Most of Slovenia's smaller banks are jealously guarding their independence.

This has been a source of frustration for the management of SKB Banka, Slovenia's largest private bank, which is 25 per cent owned by western investors including the European Bank for Reconstruction and Development (EBRD), which owns 15 per cent of it.

Last year it staged a hostile bid for Kranj-based Gorenjska Banka, another former Ljubljanska outlet. The bid was rejected by Gorenjska's management and shareholders forcing SKB Banka to expand by the more expensive route of setting up its own branches.

"We are over-banked, and at some time in the future there must be a consolidation of the sector," says Mr Gojko Koprivec, deputy chief executive of SKB Banka. "The targets for takeover will be those banks with less than 5 per cent market share nationally. We have a substantial cash pile and we are going to play a big role in takeover activity."

For foreign banks the high level of minimum capital has hitherto been a big disincentive. Two Austrian institutions, Creditanstalt Bankverein and Bank Austria, have subsidiaries in Slovenia while a French bank, Société Générale opened a bank in 1993 with a restricted licence.

New banking legislation being prepared by the ministry of finance will allow foreign banks to open branches rather than subsidiaries in Slovenia, removing the pre-condition that new outlets be separately capitalised.

For years Slovenians have saved in foreign currency and opened bank accounts in neighbouring Austria or Italy. Creditanstalt and Bank Austria originally opened banks in Slovenia to attract high-net-worth retail depositors. The two banks have also become strong competitors in the corporate loan market. They belong to the small group of institutions able to provide medium-term loans to Slovenian companies.

The EBRD is becoming very active in targeting the corporate sector, as the drive to privatisation approaches completion. Hitherto it has been providing mainly long-term funding – with maturities otherwise not available in Slovenia - but increasingly it is also looking for equity investments in medium and large enterprises.

■ **The stock market:** by Gavin Gray

Exchange could treble in size

The bourse has grown slowly since its establishment in 1989. This is set to change

Shares in the first wave of privatised companies are set to start trading this year, trebling the size of the stock market and giving western institutional investors their first chance to buy equity in a wide range of industrial companies.

At the end of last year only 12 companies were listed on the exchange with another six being traded on the over-the-counter market. These were new start-up companies, mostly in the service sector, and of little interest to investors wanting to buy into the well-established manufacturing companies that are fuelling economic growth.

"This was the first stock exchange to open in east Europe – the Berlin Wall was still standing when we were founded in 1989 – but it was also the last exchange to begin trading privatised stock," says Mr Drasko Veselinovic, president of the Ljubljana stock exchange.

More than 70 companies have completed public share issues as part of their privatisation plans, but many of them have resisted listing their shares out of fear that this would expose them to hostile takeovers. Only one company has come to market so far, Kolinska, a food processing concern, whose shares began trading in January.

Several more companies are expected to follow its lead later this year including Mercator, a supermarket chain, Droga, a food company and Kovinotehna, a trading concern.

"The capitalisation of the equity market is about DM500m and I expect it to rise to DM1.5bn by the end of the year," says Mr Veselinovic.

The Ljubljana market has an electronic trading system and a new clearing and settlement centre that opens the way for securities. However, some of the legislation for a modern securities market is still lacking. A law on takeovers is due to be debated in parliament later this year.

Slovenia is also planning to revamp its legislation on foreign investment, which was originally drafted solely with industrial investors in mind. The new legislation will lay down a legal framework for portfolio investors and should remove lingering doubts about whether they can repatriate their investments. In the interim there have been a handful of offerings, the largest of which was an international placement of shares in SKB Banka, a private bank and the largest listed company. These are traded in the form of depository receipts issued by Merrill Lynch.

■ **Industry:** by Gavin Gray

Broad product range drives exports

Companies have found ready markets for their products in western Europe

After five years of restructuring and reorganisation, Slovenia's top companies are stepping up their investment plans in an attempt to remain competitive.

Most of them invested little in the late 1980s and early 1990s, because they had excess capacity after the disappearance of their markets in former Yugoslavia.

The delays to Slovenia's privatisation programme added to the uncertainty and caused some to hold back from new capital expenditure in 1993 and 1994.

The ease with which they have managed to find new markets has pushed up their investment requirements.

"The real growth rate of investment is very high; it is four times higher than any other component of demand," says Mr Maks Tajnikar, Slovenia's minister for economic affairs until the end of January. "But the share of investment in gross domestic product (GDP) is too small. It is about 22 per cent and needs to be between 25 and 30 per cent."

Like their counterparts in other small countries, almost all Slovenian manufacturers have no option but to export.

The country recorded $6.2bn of merchandise exports in the first three quarters of 1995, of which two-thirds went to the EU, with Germany alone accounting for exports worth $2.1bn. "If one looks at the components of GDP, exports to Germany are larger than domestic investment or domestic government expenditure. Exports as a whole are greater than domestic consumption," says Mr Joze Mencinger, director of the economics institute at Slovenia's law faculty.

Being dependent on export markets carries risks, such as a heavy exposure to movement in foreign exchange rates. Slovenian manufacturers suffered in 1994 and the first half of 1995 because the Slovenian tolar appreciated in real terms against most European currencies. As a result, industrial production grew only 2.5 per cent last year, compared to 6.4 per cent in 1994.

On the other hand, the sheer diversity of Slovenia's manufacturing sector insulates the country from cyclical movements or a sudden downturn in one sector.

The country's largest exporters include Gorenje, a producer of white goods and supplier to Quelle, the German mail-order chain. Renault of France produces its Clio for export at Revoz, a majority-owned factory. Two large pharmaceuticals producers, Lek and Krka, have carved out strong export positions, especially in east Europe. Other important export sectors include textiles, telecommunications equipment and paper products.

The development and restructuring of Slovenia's export sector is exemplified by Kolinska, a producer of soups, snacks and other processed foods.

Like many Slovenian companies it developed in the late 1960s and early 1970s through licensing agreements. It signed deals with Nestlé and CPC of the US that brought in know-how and, crucially, the right to produce under foreign brand names. At its height in 1987, sales were DM220m, of which 70 per cent was sold in the Yugoslav market.

After Slovenian independence, the company restructured and cut its workforce from 1,200 to 800. Sales have fallen to DM100m a year, 60 per cent of which is in the domestic market. About 15 per cent of sales are exported to east European markets and a further 25 per cent is sold in markets in former Yugoslavia – mainly Croatia and Macedonia.

"Almost all Slovenian companies are thinking about Serbia now, but import duties are very high and it is a big financial risk," says Ms Milena Stular, Kolinska marketing manager.

The group's market share in Slovenia ranges from 40 to 80 per cent depending on product line. Ms Stular sees little prospect of fast growth at home from the existing product range, so the company is investing to broaden it. Last December it acquired a mineral water bottling plant in south-eastern Slovenia and intends to double annual output to 30m litres.

During the past two years Slovenia has signed free trade agreements with most east European countries and became a member of the Central European Free Trade Agreement in January.

Kolinska has great hopes for these new-found east European markets, although they too are becoming increasingly competitive as multinationals consolidate their positions.

Probably the most successful Slovenian company in east Europe is Krka, a pharmaceuticals concern based in the southern city of Novo Mesto.

Exports to the Visegrad group of countries – Poland, Hungary, the Czech Republic and Slovakia – as well as the former Soviet Union, accounted for 44 per cent of its $300m turnover last year, with the domestic market accounting for 28 per cent.

Krka has been co-operating with multinational drug groups for many years, and has licensing agreements with Bristol-Myers Squibb, Glaxo Wellcome and Sandoz.

Without a doubt Krka's greatest strength is its sales network and contacts in east Europe and the former Soviet Union. Through aggressive marketing the company has managed to secure a foothold in these markets, but it has also avoided accumulating bad debts. Its strength in the region was confirmed recently with the signing of a co-promotion deal with Glaxo-Wellcome for the drug Virolex. Krka and Glaxo's sales forces in central and east Europe will work together on selling the drug.

Krka's best prospects for growth are in western Europe and the US, however, regions it has so far neglected. "We have concluded more than 20 contracts for export to Germany. The first shipments will go there in the second half of this year," says Mr Joze Colaric, deputy chief executive at Krka.

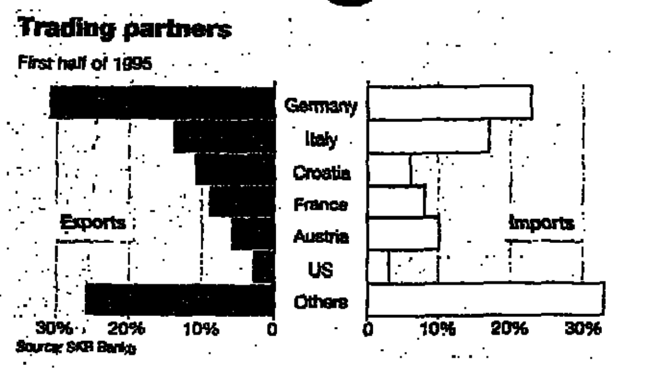
Despite these moves, Krka is out-growing Slovenia.

Next year, it will invest DM15m to open a production and warehouse facility in Poland, its first significant plant outside Slovenia.

Krka is also planning to open plants in the Czech Republic and Croatia. According to Mr Colaric, it has received strong government backing for its plan. With capital controls still in place it needs permission to invest abroad.

With Slovenian wages more than double the level in other east European countries, other companies are likely to follow its lead.

Trading partners



Source: SKB Banka

■ **Privatisations:** by Gavin Gray

Sell-offs presage big restructuring

So far changes in ownership have had little effect on the way companies are run

The first stage of Slovenia's privatisation programme is well under way, with more than 1,000 companies set to move into the private sector this year.

Existing management teams remain in control at most companies and little fresh capital is being invested as a result of the sell-offs. Despite this observers see the privatisations as the prelude to a prolonged period of reorganisation and recapitalisation.

Employees and managers have played a greater role in the privatisation process in Slovenia than in most other central and east European countries.

This reflects the Yugoslav tradition of self-management which gave workers at state-owned companies considerable control. Under Slovenia's privatisation law the workers themselves have decided how their companies should be privatised, and received substantial incentives to invest in buy-outs. They can purchase shares at 50 per cent of book value and pay by instalments.

Under the original privatisation law all Slovenians received privatisation certificates whose value depended on the individual's age. These can be used to buy shares in public share issues or placed in investment funds, which will receive 20 per cent of the stock of companies being privatised.

Workers and their families can also use the certificates to invest in employee buy-outs.

The 1,500 state-owned companies were required to submit privatisation plans by the end of 1994. All but a handful met this deadline.

By mid-February this year Slovenia's privatisation agency had given its approval in principle to 1,075 programmes. A further 500 companies have received the agency's second approval, allowing them to be registered as private companies.

About 80 companies have completed public share issues as part of their privatisation programmes and another 40 are expected to do so.

Most employees opted to buy shares in their own companies, often in the belief that this was the best way to preserve their jobs. At most small and medium-sized enterprises, the workforce will end up owning a 60 per cent stake in the company, with the remaining 40 per cent of the stock owned by outside investors: the state pension fund will have 10 per cent, a state restitution fund a further 10 per cent and the remaining 20 per cent of the shares will be transferred to private investment funds capitalised with privatisation certificates.

Ljubljana brokers are awaiting a flood of new supply from the privatisation of former state-run businesses

Slovenia's largest companies will end up with even more dispersed shareholder structures, because their employees were unable to acquire controlling stakes.

Typical of this is Krka, one of Slovenia's two large pharmaceutical concerns. Employees and their families will have a 23.6 per cent stake in the company, while 33.4 per cent will be controlled by other individual investors who bought shares in a public share issue. Investment funds will own 40.25 per cent and the balance of the shares will be taken by the company's suppliers.

Although Krka's public share issue was completed last autumn, bureaucratic delays mean that the company will not become private before autumn of this year. "Our shares will be trading on the stock market soon after that," says Mr Joze Colaric, the company's chief executive.

Observers expect power struggles to break out at many companies after the completion of privatisation.

"At companies that have already been privatised there is a conflict between employee shareholders and outside investors. The insiders would like to retain profits and invest, because they link their job security to modernisation," says Mr Joze Mencinger, director of the Economics Institute of Ljubljana's Law Faculty.

The outside shareholders, by contrast, are putting companies under pressure to pay dividends. This is especially true of the private investment funds. Since they were capitalised only with vouchers, they have started life without any cash. Yet they are under pressure from investors to start paying dividends themselves.

When the private investment funds started marketing themselves in 1994, they expected that they would very quickly be fully invested. But over the last two years they have made few investments.

The privatisation process has exposed differences between management and workers. Some managers are exploiting workers' reluctance to become shareholders by offering to buy their partly-paid shares at a discount. In other cases companies have put their employees under pressure to sign proxy forms that effectively strip them of their rights as shareholders.

Few companies have invited foreign counterparts to take part in their privatisation. They are expected to invest later on, as domestic investors take profits.

■ **Maribor:** by Gavin Gray

Revival eludes second city

Independence has taken away the markets of Maribor's biggest employer, TAM

Slovenia's transition from socialism to capitalism has been one of the smoothest among east European countries. The initial drop in industrial production was only 17 per cent and three consecutive years of growth mean that Slovenians should this year regain the living standards they enjoyed in 1989. Poland is the only other country in the region close to achieving that goal.

But Maribor, Slovenia's second city, and the region surrounding it, have been left behind in the recovery.

Whereas unemployment in Slovenia as a whole is 14.4 per cent and on the way down, in Maribor the rate is 23 per cent and rising.

"It could reach 27 per cent this year," says Ms Viljenka Godina, director of the Maribor Economics Institute.

Maribor, which lies in eastern Slovenia near the Austrian and Hungarian borders, was one of the five largest industrial centres in Yugoslavia before the country's dissolution, boasting two large textile factories and a network of companies supplying TAM, the bus and truck manufacturer that was the city's largest employer.

Whereas many Slovenian manufacturers have succeeded in gradually shifting their sales to the EU or east Europe, Maribor's manufacturers are still fighting for survival after the loss of their key markets in former Yugoslavia. Many people in Maribor say that central government in Ljubljana is not interested in helping the town.

The situation at TAM epitomises Maribor's problems and the weaknesses of Slovenia's gradualist approach to industrial restructuring.

At its height in the late 1980s it had more than 9,000 workers and a network of sales outlets and suppliers throughout the country. Its largest customer was the Yugoslav army. Most of TAM's exports went to African and Asian nations that bought its products because of Yugoslavia's leading position in the non-aligned movement.

TAM lost its markets in June 1991 when Slovenia declared independence. Sales slumped from DM600m in 1990 to DM220m in 1992. The workforce fell by half through natural wastage and redundancies, but management took no decisive measures to re-organise production.

In 1992 Iveco of Italy showed an interest in acquiring the company's bus manufacturing and components divisions. But it pulled out of talks when TAM's management insisted on the company remaining intact. This left TAM with no sources of capital to obtain new technology or equipment.

By the beginning of last year, the situation had become critical. The company's cash-flow could not meet payments on its bank debts of 3.5bn tolars ($28m); its arrears to suppliers were estimated at T3bn. The government stepped in and took control of the company when management said this was the only alternative to total collapse.

Last March the government agreed to a plan designed by Mr Maks Tajnikar, the minister of economic affairs at that time, to reschedule and guarantee TAM's old bank debts, and provide a further T8bn of guarantees to enable TAM to obtain working capital and start production again.

A new management team was appointed with a brief to bring the company back into profit within three years.

"After the debt restructuring TAM was due to make the first principal payments on its debt in 1998. We believed that three years was long enough to carry out a restructuring of operations," says Mr Tajnikar.

The Tajnikar plan involved TAM closing down its truck division and concentrating on producing buses and components. But by last summer it was clear that this plan had been over-optimistic, and that initial calculations of debts to suppliers had been wildly wrong. The true figure was T13bn.

Mr Tajnikar returned to parliament to ask for fresh funds. His request was accepted in October, but by then the new management team had resigned.

TAM's political significance grew at this time when it emerged that Mr Tajnikar had approved TAM's payment of cash commissions to a Serbian businessman who had arranged barter contracts in Russia for the company. Mr Tajnikar responded to opposition pressure by resigning in late January. His party, the United List of Social Democrats, left the government coalition.

Now working as an academic, Mr Tajnikar defends his original rescue plan, while criticising TAM's new management for increasing production by the truck division instead of closing it down.

TAM workers went on strike in February because they had still not been paid wages for January. The government pressured TAM's main creditors to provide additional loans with which to pay wages.

With the leftwing United List no longer in the ruling coalition, the current government looks set to be much less sympathetic to TAM than its predecessor.

"Without thorough restructuring there is no long-term future for TAM. We will be taking a tougher line," says Mr Metod Dragonja, the new minister for economic affairs.

In the face of TAM's problems, Maribor's local government officials hope that small and medium-sized businesses will increase job opportunities for its citizens. One obstacle is that banks are reluctant to provide seed capital to support newly-established businesses.

The Maribor Development Agency has been set up to assist small businesses. In late 1994 it opened Slovenia's first technology park offering low-rent facilities for new high-technology companies.

The EU Phare assistance programme has provided funds to support co-operation between companies in Maribor and those in the neighbouring Austrian region of Styria. Maribor is a 30-minute drive from Styria's capital, Graz.

The development agency is also behind plans to build a new trade and shopping centre which is due to open in 1998. Mr Prado Rudl, director of the agency, believes projects such as this should have a multiplier effect, producing at least five additional jobs for every new job created directly.

■ **Tourism:** by Gavin Gray

Gambling yields jackpot

Low-cost casinos have proved more of a draw than traditional attractions

Traditional resorts perform less well than gambling centres

In Nova Gorica, a town in western Slovenia, the car parks start filling up on Friday afternoons as hundreds of Italians stream over the border for an evening with a difference.

They are certainly not attracted to the town by its architecture. Lying just over the border from the Italian town of Gorizia, Nova Gorica was built from scratch after the second world war. Viewed from the air its network of grey tower blocks spell out the name Tito, reflecting the town's past as a bastion of socialism.

Since the mid 1980s, however, the town has been thriving on a distinctly unsocialist industry: gambling.

"Italians drive here 130km from Venice just for an evening out, even though they have a casino in their home town," says Mr Srdan Tovornik, director of HIT Nova Gorica, which operates two of the town's casinos.

While Italy's handful of casinos cater mainly for the old and very rich, HIT has succeeded in adapting some of the features of Las Vegas casinos to attract younger, middle-class Italians.

HIT's Hotel Perla, for instance, has more than 500 slot machines including 90 in the Captain Hook Club, the hotel's disco. Prices are lower as well: it costs L5,000 ($3.15) to enter the casino in Nova Gorica, compared to L20,000 ($12.60) in Venice.

Although HIT's facilities stay open 24 hours a day, few visitors stay the night and the car parks are empty by Saturday morning.

This type of tourism is becoming more and more important to the Slovenian economy. In 1995 the country earned $1.2bn from tourism, a 25 per cent rise on 1994. Casinos and other forms of gambling accounted for 11 per cent of the country's earnings last year, more than double its income from its many hotels and guest houses.

At the same time, the number of overnight stays in Slovenian hotels rose by just 0.3 per cent to 5.9m and most of this increase was accounted for by local guests.

But while the casino business has been thriving, some of Slovenia's traditional tourist attractions are still struggling to recover from the after effects of the break-up of Yugoslavia.

One of the hardest hit has been the Postojna cave. It is 27km long – the second largest cave in the world – and one of more than 6,000 caves in the Karst area, a limestone region of western Slovenia.

It became a big tourist attraction during the late nineteenth century when a railway line was opened from Vienna to Trieste. Postojna became Slovenia's prime tourist spot in the 1970s and 1980s as more and more foreign tourists visited Yugoslavia on package holidays. Many of them would travel to Postojna on day trips from beach resorts in Istria, while others would stop on the drive down to Croatia's Dalmatian coast. In 1990, the year before the break-up of Yugoslavia, there were nearly 900,000 visitors.

Tourism in Croatia disappeared overnight in 1991 when war broke out. It is showing few signs of a quick recovery and the number of visitors to the cave reflects this. Although the number of visitors rose from a low of 153,000 in 1991 to 260,000 in 1994, it fell again last year when the Croatian army's assault on the Serb-held Krajina region scared tourists away.

This year management expects the number to rise again to 286,000, although Ms Ksenija Dvorscak, the cave's marketing manager, has no illusions about its prospects of regaining the position it enjoyed before the break-up of Yugoslavia. Meanwhile management is generating extra income by inviting foreign potholers on specialist trips of little-known parts of the cave; another venture is to stage concerts and gatherings in the cave.

North-west of Postojna lies the valley of the Soca, an emerald-green river that is a blossoming centre for activity holidays. It is becoming popular with rafting enthusiasts. Bovec, a small town near the river's source, is a centre for gliding and climbing.

With the Italian border only 10 minutes away by car and the Austrian border a 30 minute drive, Bovec could quickly develop into a modern tourist resort. But Mr Sinisa Germovsek, president of the Bovec town council, cautions that development needs to be controlled to ensure that the area's natural attractions are protected.

While a large number of the town's visitors come from neighbouring Austria and Italy, Mr Germovsek believes that in future visitors will come from further afield. He hopes to combine forces with his counterparts just over the border in Italy and Austria to organise a joint marketing campaign for this area of the Alps.

■ **Renault:** by Kevin Done

Revoz opens access to east

The French carmaker sees Slovenia as a springboard for eastward expansion

Slovenian levels of quality compare well with those of French plants

Renault of France, the only European vehicle maker assembling cars in Slovenia, is playing a growing role in the country's economy.

Revoz, its majority-owned subsidiary is the country's biggest industrial group measured by turnover and is one of its biggest exporters.

The French carmaker also dominates the local car market with a share last year of 25.7 per cent, more than double the shares commanded by its closest competitors, the Volkswagen and Fiat groups.

The level of car ownership in Slovenia – around 318 per 1,000 inhabitants – is already the highest in central and east Europe, an indication of the country's status as the most advanced of the transition economies. The level of car ownership is also ahead of some European Union member states such as Greece and Portugal. The average for the EU is 418 cars per 1,000 inhabitants.

The new car market grew strongly last year with a rise of 32 per cent to 61,300 from 46,400 in 1994, but the pace is likely to slow in coming years with annual growth of 2-3 per cent, says Mr Bernard Coursat, Revoz's chief executive.

The Revoz facility at Novo Mesto is Renault's only car assembly outpost in central and east Europe – its European car plants are otherwise heavily concentrated in Belgium and south-west Europe – in France, Spain and Portugal – and it is Slovenia's only car plant.

The operation is still heavily dependent on exports to west Europe, chiefly to France and Italy, but the French carmaker believes that it can be used as a springboard into other markets to the east.

"Renault has made a strategic decision to develop its presence in Slovenia," says Mr Coursat. "It wasn't a question of moving capacities from west Europe but of developing new ones in order to be closer to potential markets in central Europe and the Balkans."

He believes that long-term benefits will accrue both from Slovenia joining the Central European Free Trade Agreement – it became a full member at the beginning of the year alongside the Czech Republic, Poland, Hungary and Slovakia – and from the reopening of markets in former Yugoslavia in the wake of the Dayton agreement.

Renault's production in Slovenia has grown strongly in the past two years, as the Revoz operation has benefitted from the recovery in new car sales in west Europe following the deep recession of 1993.

Output increased by 18 per cent to 87,405 last year from 73,980 in 1994 and the low point of 58,276 in 1993 with exports accounting for more than 80 per cent of production. Renault currently assembles the Clio and R5 small cars in Slovenia.

The local content of Renault cars assembled in Slovenia is low, at around 35 per cent, but the Revoz plant is still important as the main customer for the local Slovenian automotive components sector.

Assembly of Renault cars began under licence in former Yugoslavia in 1969, but the French carmaker did not make its first equity investment in local production until 1989 with the creation of Revoz, in which initially it held a 20 per cent stake.

At the beginning of the 1990s the decision to commit a significant investment to Slovenia for the production of the Renault Clio small car and to integrate the Novo Mesto plant into Renault's European production network led the French carmaker to increase its holding to a majority 54 per cent stake.

Of the remainder 12.4 per cent is currently held by the state-owned Nova Ljubljanska Banka, with 33.6 per cent in the hands of the state through the National Development Fund.

Despite Renault's increased commitment to the Revoz operation there has been friction in its relationship with the state, in particular over the financing of the company.

It was agreed in 1992 that the equity capital of Revoz would be increased with an injection of FFr150m ($30m) in fresh capital, chiefly to help fund the heavy investment needed to start production of the new Clio small car range.

"By 1996 this capital increase has still not happened, because the state has not come up with the money," says Mr Coursat. "We have had to take expensive short-term loans to make up for this lack of equity capital."

Renault claims that the government's failure to date to inject its promised share of the equity increase has also blocked attempts to gain funding from the European Bank for Reconstruction and Development.

In recent weeks the government has said that it will finally fund its share of the capital increase from its receipts from the privatisation process. The injection will be made in stages however, and the timetable remains unclear at present.

In the meantime the investment of around FFr1bn – most importantly for a new paintshop – went ahead supported by a FFr400m loan from Renault, with the first Clios leaving the assembly line in Novo Mesto in May 1993.

Renault is adamant that the state should share the entrepreneurial risk at Revoz, not least because of legislation that "is not encouraging to foreign investors", says Mr Coursat.

He cites two particularly irksome regulations. These make it necessary for:

- either the chief executive or a majority of the members of the management board of joint stock companies to be Slovenian, and;
- a worker's director to sit on the management board of any company with more than 1,000 employees.

Renault is pleased with the productivity of its operation in Slovenia and with the quality of local output. The latter compares favourably with its domestic plants in France, says Mr Coursat.

Gross monthly wage costs of DM1,565 ($1,061) per employee may be two-and-a-half times the level of the Czech Republic or Hungary, but they are partly compensated for by higher productivity and they are only a third of the level of France, says Mr Coursat.

While production has risen strongly in the past two years the workforce has been reduced from 3,968 in 1991 to 2,905 in 1995, and the level of automation at the Revoz plant is still low.

■ **Retailing:** by Peter Wise

Corner shop feels the pinch

The country has far more grocers than the European average, but their future is uncertain

Turn almost any street corner in Portugal and you will find a corner shop. The local grocer will cut a slice of cheese to your liking, help you choose the best tomatoes from a wooden crate on the pavement and carefully parcel half a kilo of dried codfish in brown paper and string. While you chat with the other customers, he may pour you a glass of wine from a barrel behind the counter.

This might sound like paradise to consumers in more commercially developed countries who shop for homogenised, shrink-wrapped products along crowded supermarket aisles. But it is not, apparently, what most Portuguese shoppers want.

Sales by small grocers fell from 64 per cent of total retail food sales in 1989 to 34 per cent in 1994 as consumers turned away from the corner shop to big new supermarket and hypermarket chains. Portugal still has almost three times as many small grocers as the European average – 3.8 per 1,000 inhabitants compared with 1.4 for Europe as a whole – but their future is increasingly uncertain.

Almost 5,000 local grocers went out of business between 1989 and 1994 and five small shops are currently being forced to close every day, with the loss 90 jobs, say commerce organisations.

"Many of the 500,000 people employed by Portugal's 200,000 small retailers face a dramatic situation," according to Mr Vasco da Gama, president of the Portuguese Confederation of Commerce (CCP). "Their sales are falling and their earnings are often insufficient to cover their fixed costs. Many are not covered by social security."

Strong emotions generated by the conflict between traditional commerce and large-scale retailing have found expression in a heated national controversy over Sunday opening hours.

In January 1995, the then centre-right government cut almost unrestricted Sunday opening hours to six hours for hypermarkets and other large stores in response to strong lobbying from small shopkeepers. But the measure has failed to satisfy either side in an increasingly emotive debate.

The socialist government that came to office after winning a general election last October promised to restrict Sunday opening further in return for the CPP's adherence to a national pact on wages and conditions.

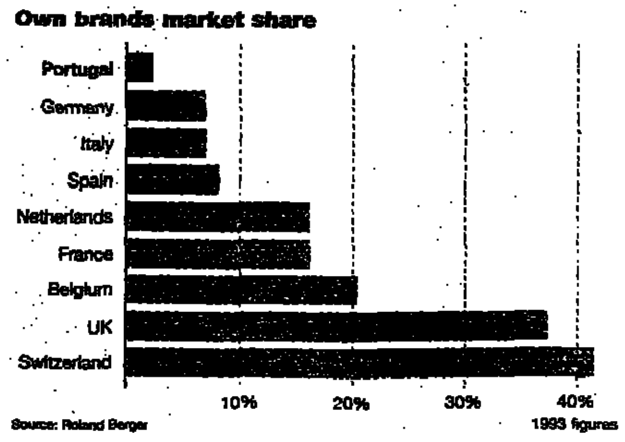
But a decision this month by Mr Daniel Bessa, the economy minister, to reduce Sunday opening for big stores by only one more hour to five hours – against 10 hours for other outlets – is unlikely to appease small shopkeepers, particularly if the government subsequently permits the opening period to be in the afternoon. Mr da Gama has called such a proposal "catastrophic".

On the other side of the argument, the big stores – defined as having an area of more than 2,000 square metres in towns or 1,000 sq metres elsewhere – say cutting Sunday opening to five hours could threaten the jobs of between 3,750 and 5,000 of the 25,000 people they employ. Weekend shopping accounts for more than half of supermarket sales, say the big chains, although fewer people shop on Sunday than Saturday.

According to Mr da Gama, 10 per cent of the big stores' total sales, which have grown to about Es800bn a year from Es230bn in 1989, could be transferred to small retailers if supermarkets and hypermarkets were forced to close all day on Sunday. However, market studies in Spain indicate that restrictions on Sunday opening have only a slight impact on sales, as most consumers switch their hypermarket shopping to Saturday and other days of the week.

Behind the controversy over Sunday opening lies a deeper argument over traditional values and changing lifestyles. A group of 60 Roman Catholic priests in Oporto has issued a manifesto opposing Sunday opening and denouncing the big retail groups for seducing people into consuming more.

Own brands market share



Retail food trade: annual sales
Figures in billions of escudos

	1989	1990	1991	1992	1993	1994
Hypermarkets	107	162	221	308	401	469
Supermarkets	124	147	183	215	250	292
Other outlets	404	461	479	475	458	399
Total	635	770	883	998	1,109	1,160

Source: Nielson, Gesfinc

But Portuguese shoppers clearly enjoy the wider variety, convenience and lower prices that large outlets offer. Mr Bessa, who believes restricting the big stores will be of little practical benefit to small shopkeepers, acknowledges that an afternoon at the hypermarket has become a new form of weekend leisure, particularly for less affluent families.

Most analysts agree that closing their bigger competitors on Sunday is not the real answer to small retailers' problems. "Most shoppers prefer lower prices and a large variety of goods. That gives large stores the advantage," says Ms Maria Amélia Valverde, an analyst with Gesfinc, a Lisbon research house.

"This does not mean that some consumers will not remain faithful to the neighbourhood store," she says. "But small shops need to become more competitive and offer attractive premises in addition to the personal touch that distinguishes them from the standardisation prevailing in the big outlets."

Portugal is using European funds to help finance a Es45bn programme, known as Procom, that provides grants and low interest loans to encourage small retailers to invest in modernisation and training to increase the productivity and competitiveness of the sector.

But small shopkeepers, many of whom are elderly with no children willing to carry on the business, have been slow in applying for the support available. To become more competitive, small shops will have to specialise further or follow the trend for changing into convenience stores, discount shops or franchise outlets, say analysts.

Discount stores – small shops that offer a narrow range of goods at low prices – and convenience stores, which open for long hours, are more of a threat to local grocers than supermarkets and hypermarkets, according to Ms Valverde.

"They share the same locations, have lower prices and a modern appearance that appeals to young shoppers," she says. "At the same time, there are no legal restraints on their expansion of the kind imposed on the big chains."

Portugal currently has 44 hypermarkets with an area of 2,000 sq metres or more. That is the equivalent of one for every 217,000 inhabitants, more than double the number of potential customers per store in Spain and seven times higher than the ratio in France.

But the government considers the big chains, which include the Sonae group, Jerónimo Martins, Pão de Açucar and Carrefour, have gained market share very fast. Tight restrictions amounting to a temporary freeze on granting licences for new stores are now expected.

This could help, rather than hinder, profits. Because there are fewer hypermarkets and labour costs are lower, Portuguese hypermarkets and supermarkets enjoy higher operating margins than in most other European countries – an average of 4 per cent in 1994 compared with 2.5 per cent in France, for example.

Restrictions on the opening of new stores will help hypermarkets maintain high margins and competition in Portuguese retailing is likely to focus more on smaller supermarkets and discount store chains. The Sonae group's Modelo Continente and Jerónimo Martins, the only two retailers quoted on the Lisbon stock market, are also expanding abroad to offset restrictions in the Portuguese market.

Hypermarkets

	France	Spain	Portugal	Lisbon
Number of hypermarkets	1,030	240	44	11
Total sales area ('000 sq m)	5,706	1,832	235	59
Shop floor area (sq m)	5,551	7,635	5,340	5,364
Population ('000)	57,667	39,083	9,337	2,069.5
Inhabitants per shop	32,339	94,251	212,200	188,136
Inhabitants per sq metre	5.8	12.3	40	35

Portuguese figures do not include Madeira and the Azores. Portuguese hypermarkets have a minimum of 2,000sq m, while the minimum in France and Spain is 2,500 sq metres. Source: Gesfinc

COMPANY PROFILE Jerónimo Martins

In gear for expansion

Jerónimo Martins, Portugal's second largest retail group, has adopted a vigorous expansion policy, branching into international sports and leisure gear with the purchase last year of Britain's Lillywhites, and buying Poland's largest cash and carry chain.

In the Portuguese retail sector the group has consolidated its position with a healthy balance sheet and annual sales of more than Es280bn. Earlier this month it reported a 29.3 per cent increase in net consolidated profit to Es8.1bn in 1995 from Es6.2bn in 1994. Growth was driven by a 29.9 per cent jump in sales to Es281.7bn.

But the group dare not sit on its laurels. Mr Alexandre Soares dos Santos, the chairman, says it is now looking abroad for growth because of weaker consumer demand and licensing difficulties for supermarkets at home.

"I think the period of growth in Portugal is at an end," he says. The challenge now facing the company is profitable growth. "We bought Lillywhites firstly because of the store's specialist knowledge, but more importantly because the company had an expansion programme which met our needs exactly," he says.

With the acquisition last December from Forte, the UK hotels group since taken over by Granada, Jerónimo Martins has made a first step into the growth area of sports and leisure wear, aware that competition in the food sector is becoming tougher.

"We chose Lillywhites after commissioning a US market study which indicated that neckties would almost cease to exist in 10 years' time," Mr Soares dos Santos says. "The trend to more casual clothes is very strong."

Lillywhites, whose sales rose slightly to just under £20m in 1995, has provided Jerónimo Martins with a springboard from which to expand its retailing business and strengthen its weak non-food sector.

The group plans to open Lillywhites outlets in Europe, Asia, Latin America and Africa. In the UK the group plans to increase its stores from three to about 15 by 1999, placing itself in the upper end of the market. The store model for the future will be based on the Lakeside shopping centre at Thurrock, Essex, in south-east England.

Mr Soares dos Santos acknowledges that some investors viewed the £28.5m price that Jerónimo Martins paid for Lillywhites, twice book value, as too high. The company paid 19 times the store's 1995 profits of £1.5m, he says. But he is convinced it was justified. "They thought of Lillywhites as just a store in central London," he says. "But we're talking about a concept."

In January 1995, Jerónimo Martins purchased Poland's largest cash and carry chain, Elektromis of Poznan, western Poland, with 48 outlets. Revenue has since almost doubled.

"When we studied distribution we looked at Latin America, a natural area of expansion for us, but we realised entry would be costly, and there was a lot of inflation and political instability in the region," he says. "Our next port of call was central Europe. We thought Poland was a particularly good market with 40m people. There was no competition and a very low price of entry."

"In 1996 we hope to make a profit in Poland," says Mr Soares dos Santos. "Last year, in our first nine months after taking over the company, we were able to break even." As part of its commitment to the Polish operation, Jerónimo Martins is bringing young Polish graduates to Portugal for 12 months' training.

The group has nevertheless continued to grow in Portugal, opening Pingo Doce supermarkets and Feira Nova hypermarkets. It also acquired two cash-and-carry warehouses in the central towns of Torres Novas and Leiria and a supermarket chain in Madeira.

According to a report by Gesfinc, a Lisbon equity research group, the Feira Nova chain has the best growth potential in Portuguese retailing in terms of gross and operating margins. Currently it is third, after the Modelo and Pingo Doce supermarket chains, with a 13 per cent gross margin.

Its operating margins are just over 7 per cent. However, its locations have yet to face the direct competition of other hypermarkets. Feira Nova also enjoys the lowest wages-to-sales ratio among Portuguese hypermarkets.

Feira Nova shows the best return on assets and shareholders' equity in Portuguese retailing. The chain has virtually no bank borrowings on its balance sheet while most of the other retailers have borrowed heavily.

The forecast gearing – the percentage of a company's trading profit that goes to pay interest charges – for Jerónimo Martins in 1996 shows a drop of 14 per cent from 1994 to 73 per cent. This compares with Portugal's leading retailer, the Sonae group, which is forecast to have a 71 per cent gearing in 1996, a marked contrast to 1994's 46 per cent.

Last year the group invested Es40bn, of which Es27bn was in the domestic market. This year it is expected to spend a similar amount. Together with the Sonae group's rival Continente chain, Jerónimo Martins accounts for nearly 10 per cent of the Portuguese stock market's total capitalisation.

On the basis of projected expansion for the Pingo Doce and Feira Nova chains in Portugal, together with the development of Lillywhites and its cash and carry business in Poland, analysts forecast Jerónimo Martins' net earnings will grow by 20 per cent in 1995 and 1996.

Sarah Provan

Project finance: by Peter Wise

When the user won't pay

Consumer revolts have undermined a central concept of private sector financing

One of the first election pledges fulfilled by Mr António Guterres, the prime minister, after his socialist government took office last November was to abolish tolls on three recently-constructed ring roads around Lisbon and Oporto.

The measure improved his popularity ratings among commuters in the two cities but also led to a loud clamour to do away with tolls on similar roads serving Coimbra, Braga and other towns.

Mr Guterres said the three ring roads were failing to achieve their purpose of relieving traffic congestion because the tolls discouraged motorists from using them as an alternative to existing routes.

But in transferring the bill for the construction and maintenance of the roads from city drivers to the general taxpayer he was also undermining a concept central to private sector financing of infrastructure projects: the user pays.

In a similar move, the government has decided to raise the toll for crossing Lisbon's April 25 suspension bridge over the Tagus river by 13 per cent from April 1. But, through an arrangement that has not yet been made public, bridge users are later to be reimbursed with the equivalent of the increase.

Both this measure and the abolition of the ring road tolls involve renegotiating operating contracts and compensating the companies involved from state funds in a trend that analysts fear will set back the development of project finance in Portugal.

Private sector infrastructure projects were already suffering difficulties under the previous centre-right government, chiefly because of political problems in addressing the need to lift heavily-subsidised prices for public transport and other services to viable commercial levels.

The issue reached a head in 1994 when the April 25 bridge was blockaded by protesters objecting to a 50 per cent toll increase. The raise was to help bring tolls up to the level of those planned for the new Es180bn Vasco da Gama bridge, the longest in Europe, that is being constructed in Lisbon under a build, operate and transfer (BOT) contract by Lusoponte, a consortium led by Trafalgar House of the UK. The group has also taken over the operation and maintenance of the April 25 bridge as part of the agreement.

In 1994, the blockade forced the government to attenuate the planned toll increases for the existing bridge, obliging it to allocate an additional Es18bn of public funds to the new bridge, a partial withdrawal from the original aim of promoting it as a private sector financed project.

"The big expectations created for project finance in Portugal have not yet been fulfilled," says a Lisbon banker involved in the private financing of infrastructure projects.

> Placing projects in the private sector appears to make more sense than paying for them out of limited public funds

"The attitude of the state has been focused on relieving itself of the financial burden of big projects and transferring the risk to the private sector rather than sharing it," he says. "Projects have been undermined by an underlying lack of commitment to the concept of private financing and operation."

In theory at least, the Portuguese economy is ideally suited for project finance. The country lacks many important infrastructures compared with more developed neighbours. But it also has to exercise tight budgetary restraint to meet the convergence criteria for European monetary union.

Placing projects in the private sector, where the cash flow from the operation of the enterprise is used to pay back the loans contracted to finance their construction, appears to make more sense than paying for them out of limited public funds.

However, the concept has not proved so easy to apply in practice. The commuter revolt over the bridge toll, as well as subsequent toll concessions and abolitions, strike at the "user pays" principle underlying project finance.

Perhaps this indicates that the principle works only if tariffs are acceptable to the consumer. The high level of state funding for public transport systems in Portugal makes the change from subsidised to commercially-viable fares painful and politically sensitive.

Lusoponte originally planned to charge an initial toll of Es330 for a two-way crossing of the new bridge. The current toll on the existing bridge, which opened in 1966, is Es150. It is now unclear how Lusoponte will lift the toll on the existing crossing to the same rate planned for the new bridge. Traffic is unlikely to be diverted to the new crossing if the toll on the existing bridge is lower.

"Government has failed to address the transition from subsidised to market prices adequately," says a Lisbon banker. "It has also failed to market the benefits of infrastructure operated by the private sector in a way that would help overcome difficulties in increasing tariffs."

Fear of politically unpopular fares appears to be one of the reasons why the previous government reversed a decision to grant a concession for a privately-financed Es100bn project to build and operate a railway link under the April 25 bridge. The service is now expected to be financed and run on traditional terms by the state.

Portugal has had more success with project finance in the energy sector, where consumer tariffs will remain largely controlled by the state and, at least for industrial consumers, were already high in relation to the rest of Europe.

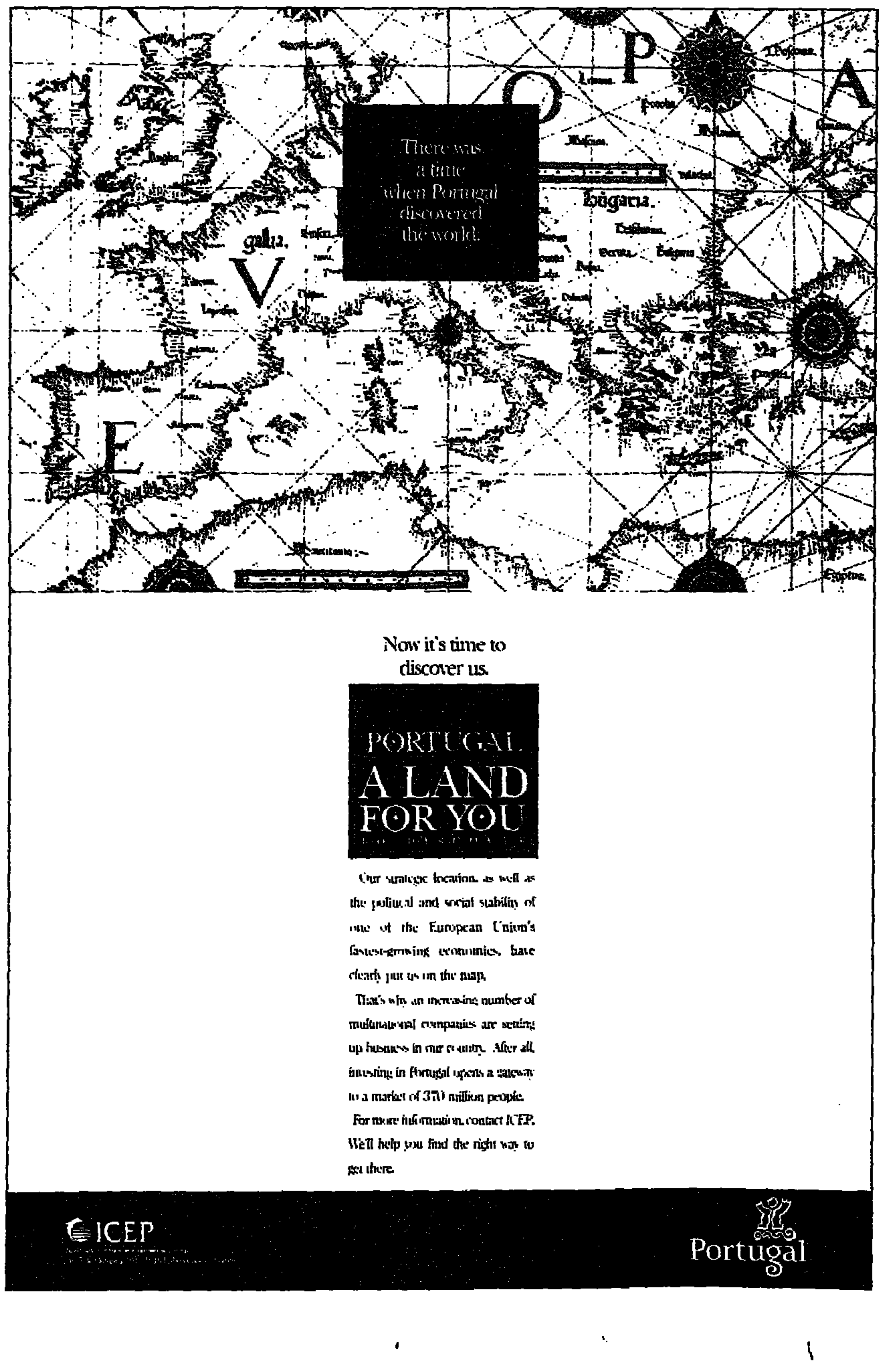
In 1993, Electricidade de Portugal, the state power utility, sold two 300MW coal-fired power plants at Pego, 130km north-east of Lisbon, to Tejo Energia, a group led by National Power of the UK, for Es155bn. Two further 300MW units are expected to be added to the plant and Tejo Energia has an option on their purchase.

In February 1995, a consortium led by PowerGen of the UK began construction of Portugal's first natural gas-fired power plant at Tapada do Outeiro, near Oporto. The Es100bn BOT project is to be financed mainly by a syndicate of Portuguese and international banks, including the European Investment Bank. The introduction of natural gas into Portugal and its regional distribution are also to be partially financed by the private sector.

Project finance: the big jobs

Project	Company	Sector	Investment in $m
Pego – coal-fired power station	Tejo Energia	Energy	1,220*
Tagus Road Bridge (Lisbon)	Lusoponte	Infrastructure	1,000*
Natural gas pipeline	Transgás	Energy	1,200-1,500
Tapada do Outeiro – natural gas power station	Turbogás	Energy	900
Oporto natural gas distribution	Portgás	Energy	200
Central region natural gas distribution	Lusitaniagás	Energy	150
Setúbal natural gas distribution	Setgás	Energy	200

*Financial closing — Source: the companies



The stock market: by Peter Wise

A buoyant year is forecast

Lower interest rates are expected to lead to a flow of funds from bonds into shares

Falling interest rates, an aggressive privatisation programme and renewed confidence in emerging markets are lifting the spirits of Lisbon brokers, who forecast a buoyant year for Portuguese equities after a 1995 they would prefer to forget.

The Lisbon stock market's BVL-Geral index has gained more than 8 per cent since January and analysts project an increase of up to 15 per cent by the end of 1996. After two years of solid growth, the index fell 4.6 per cent in 1995 as trading volume on the secondary market dropped 5 per cent on 1994 to Es594.7bn.

Shares suffered last year as fears that the general election in October would produce a hung parliament pushed up real interest rates. But the Socialists' convincing victory, followed in January by the election of President Jorge Sampaio, a fellow socialist, have since lowered Portugal's political risk premium.

Brokers base their optimism on an expected flow of funds from bonds into shares as a result of lower interest rates. "Shares account for only about 5 per cent of the portfolios of most Portuguese pension funds," says Ms Karen Bradley, an analyst with ING Barings. "That level could rise to about 10 per cent this year as interest rates on bonds and government securities fall."

Yields on long-term government securities have fallen by about 200 basis points since the general election to 8.88 per cent for the latest five-year Treasury Bills (OTs). Yields for all public debt securities are now lower than in Spain.

Ms Isabel Cabral, an analyst with Lisbon brokers Fincor, forecasts rates on 10-year OTs will fall to 8.5-9 per cent this year from 10.5 per cent in 1995 against a background of decelerating economic growth in Europe. She sees three-month spot market interest rates dropping to about 7.25 per cent by the end of 1996, from 8.8 per cent last year, as the Bank of Portugal follows German interest rate cuts.

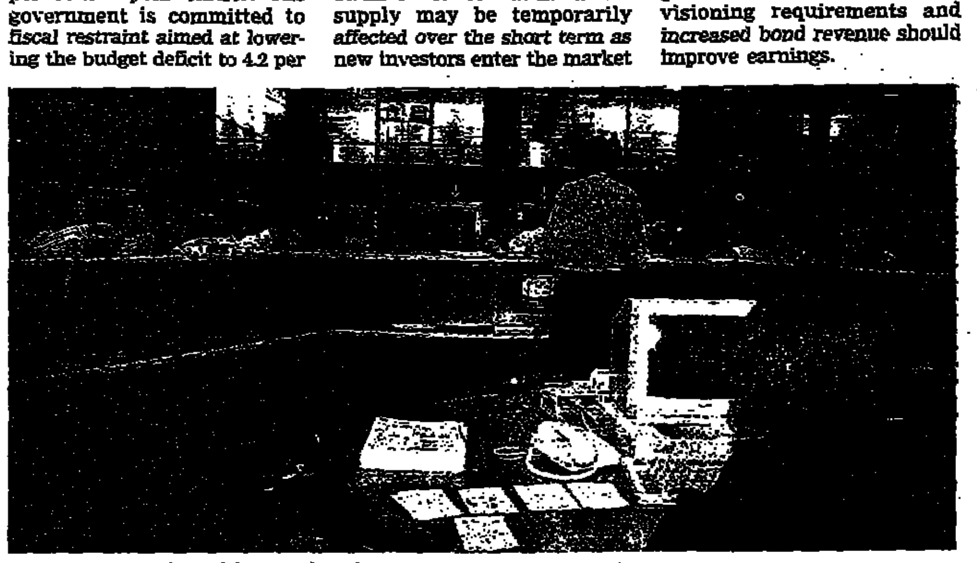
As much as political stability, lower bond rates reflect an upbeat outlook for inflation and the public deficit. Year-on-year inflation has fallen to record lows, at 2.5 per cent in February, compared with 4.6 per cent a year earlier. The government is committed to fiscal restraint aimed at lowering the budget deficit to 4.2 per cent of gross domestic product this year from 5.2 per cent in 1995.

An extensive privatisation programme will also animate the equity market. Revenue for the sale of state companies is estimated to reach more than Es380bn this year, up from Es320bn in 1995. Timings are uncertain, but secondary offerings in Cimpor, Portugal's biggest cement producer, and Portugal Telecom are expected to be made by June. An initial public offer of Electricidade de Portugal will follow late this year or early in 1997.

"Privatisations will be positive for the market over the medium term as they will increase liquidity and the potential for portfolio diversification," says Mr António Horta Osório, chief executive officer of Banco Santander de Negócios Portugal. "However, the balance between demand and supply may be temporarily affected over the short term as new investors enter the market and others divest to buy privatisation stock."

Ms Mari Vargas, an analyst with Dillon Read Securities, says a number of companies have rationalised operating costs as a result of the 1993 recession and are now better placed to benefit from an economic upturn. In the industrial sector, brokers point to Corticeira Amorim, the world's leading cork producer, and Barbosa & Almeida, which controls 45 per cent of Portugal's glass packaging market, as niche companies that are relatively isolated from weaker demand.

According to Mr Emmanuel de Figueiredo of Carnegie Portugal, bank consolidation, after the big takeovers last year, will help profitability by easing the fall in interest margins as groups compete less aggressively during a period of internal reorganisation. Economic growth will lower bad debt provisioning requirements and increased bond revenue should improve earnings.



The trading floor of the Lisbon stock exchange — Lydia van der Meer

PRIVATISATION PROFILE Electricidade de Portugal

The jewel in the crown

A global offering of Electricidade de Portugal, the holding company for Portugal's national power production, transport and distribution utilities, will be the jewel in the crown of the new privatisation programme, bringing long-awaited new breadth and greater liquidity to the Lisbon stock market.

The government aims to privatise 49 per cent of the group, which it expects to be valued at about Es1,400bn, by the end of 1998, with an initial public offer of 10-20 per cent in November or December of this year. Lisbon, New York and London are the priority markets for the first offering. Frankfurt, Paris and Madrid may also be included in the operation.

A study is under way into a precise timetable for the first operation and government officials acknowledge that to organise an international road show to promote the offer among investors in leading financial markets it may be necessary to postpone the first phase to the beginning of 1997.

Under the previous government's plans, EDP had been expecting to privatise a holding into Companhia Portuguesa de Produção Eléctrica, the power generating arm, followed by stakes in Portugal's four regional distribution companies, rather than part of the holding company. Analysts say reformulating the sale on these lines makes early 1997 the most probable date for the first offering.

Rede Eléctrica Nacional, which runs the national power transmission grid, is expected to be excluded from the privatisation and maintained 100 per cent state-owned and run.

The approximate value of Es1,400bn for EDP is subject to the findings of independent valuations, but officials say it would be difficult for the group to be given a value that was significantly lower.

Analysts consider EDP's main attractions to be high levels of turnover, production and operational cash flow as well as its internationalisation plans and business opportunities. The company is also seen as a "safe" investment, offering stable dividends of a type lacking on the Lisbon stock market.

EDP's increase in profit from Es30.5bn in 1994 to an expected Es60bn in 1995 is attributed to improved management of both customer's debts to the company and the group's own debt, which has fallen from more than Es1,000bn to below Es700bn over the past six years. The debt is expected to be reduced by a further Es100bn-150bn this year, possibly by channelling revenue raised in the privatisation back into the company through a capital increase.

Some government officials believe EDP deserves to benefit from state support of this kind because it has borne the financial costs of creating its own pension fund and of investing in the electrification of areas which were not economically viable without receiving state subsidies.

Such a measure would have to win the approval of Mr António Sousa Franco, the finance minister, and be weighed against the benefits of using privatisation revenue to reduce Portugal's public debt to meet the convergence criteria for European monetary union.

EDP's earnings have also improved because of better bill payment systems and a substantial reduction in investment in production plants. In the 1980s, the group had been steering about two-thirds of its total investment into production capacity and the rest into distribution. The proportions have now been reversed, with EDP limiting investment in production to hydro-electric plants. Concessions for new thermal plants are being awarded to the private sector.

Peter Wise

Time change: by Peter Wise

The day will start brighter

The country is reverting to GMT after four years of alignment with most of Europe

Portugal's new socialist government hopes to turn night into day. By not moving clocks forward an hour to summer time as usual on March 31, the country is to revert to the same time as Britain and Ireland after four years of alignment with the rest of continental Europe.

Moving back to Greenwich Mean Time (GMT) is intended to end an unpopular "dark age" that forced most of the country to travel to school and work before dawn. The government believes the change back will brighten the lives of most Portuguese who, to judge from the public mood, believe that interfering with time in the name of European unity was a biological, economic and political mistake.

The previous centre-right government turned the clocks forward by an hour in 1992 to equate business timetables with Spain, Germany and France, Portugal's main trading partners. The measure, considered essential for the country's participation in European monetary union, was aimed at benefiting the economy.

Amid the euphoria of Portugal's early years of EU membership, the change was readily assimilated. But public opinion has grown increasingly incensed over a move that many now consider to have taken a toll on the country's health, wealth and peace of mind.

The 1992 move to Central European Time placed Lisbon on the same time as cities such as Warsaw, more than 2,000km further east. As a result, the sun rose after 9am in mid-winter and children travelled to school in the dark for most of the year. In the summer, when clocks are moved forward one hour, it remained light until after 11.30pm, making it difficult to encourage toddlers to go to bed on time.

Such upheavals can disturb biological rhythms and disrupt family life, according to psychologists. In addition to the safety risks for children and open-air workers, the time change increased school failure rates, lowered productivity and increased energy costs, say supporters of GMT.

Even ministers in the former government now accept that the 1992 change may have been wrong-headed. Besides the practical issues, many Portuguese believe the country sacrificed part of its individuality and cultural identity by adjusting to "Brussels time", an attitude that reflects a general cooling of Portugal's earlier enthusiasm for Europe.

The argument in favour of aligning financial market timetables with continental Europe has also lost weight. "In many ways, the more in line we are with London and the US the better," says Mr Pierre Boulle, head of research at Lisbon brokers Fincor. "That is where most of the financial investment in Portugal comes from."

Airlines have been the only vocal opponents to change, arguing that until schedules could be renegotiated some departures would become too early to be commercially viable.

Reflecting public sentiment, Mr António Guterres, the prime minister, made an election pledge to re-examine Portugal's time zone. Soon after taking office last November, he asked the National Time Commission, a group of scientific experts appointed by central and regional government, to study a possible change. In February, the Commission formally recommended moving back to GMT.

The 1992 change moved Portugal 2 hours 36 minutes ahead of solar time. This meant that when the sun was directly overhead – midday in solar time – it was 1.36pm in Portugal in the winter and 2.36pm in summertime.

Even though Portugal is west of Greenwich, implying being behind GMT, the country was placed on the same time as cities thousands of kilometres further east. However, from this spring, Portugal will trade harmony with Brussels, Brescia and Berlin for breakfast in daylight.

CURRENCIES AND MONEY

MARKETS REPORT

Mad cows venture into foreign exchange markets

By Philip Gawith

The pound yesterday fell sharply as the ramifications of the "mad-cow" disease scare spilled over into the foreign exchange markets.

It lost nearly two pfennigs in early European trade, slipping to an intra-day low of DM2.2458 from Friday's London close of DM2.2643. It later recovered slightly to finish at DM2.2536. It finished a cent lower against the dollar at $1.5251.

Most of the losses were suffered in early trade and the pound subsequently traded steadily for most of the day. Volumes were fairly thin, in keeping with the generally quiet trading conditions which continue to prevail.

The other move of note was the slight strengthening of the yen against the dollar. This was prompted by the Japanese opposition party abandoning its campaign against the government's plan to resolve the *Jusen* loan crisis, and the easing of tensions between China and Taiwan following the weekend presidential poll.

The dollar finished at Y106.13, from Y106.745. Against the D-Mark it closed at DM1.4777, from DM1.4753.

The D-Mark was slightly easier in Europe following the three state elections in Germany where the ruling CDU and its partner the FDP did well. This was seen as being negative for the D-Mark, which finished at FFr3.422 against the French franc from FFr3.432.

■ There was little logic to the market selling sterling, beyond the fact that saturation coverage in the weekend press scared some investors and traders into "something must be done" mode. As one analyst noted, sterling rose on Friday afternoon when the talk was of killing the entire national herd of 11m cattle, yet fell yesterday when that figure had been cut to a possible 4.5m having to be killed.

Mr David Cocker, economist at Chemical Bank in London, said: "Had there been other factors for the market to consider, the "mad cow" issue would not have been as dominant."

While gilt prices recovered later in the day after a calming statement from Mr Stephen Dorrell, the health secretary, sterling did not follow suit.

■ The D-Mark's weakness was in part attributable to the poor performance by the SPD in the weekend elections. The SPD had campaigned on a mildly anti-EMU ticket, and a good showing would have been taken as a severe blow to the single currency project. But Mr David Bloom, economist at HSBC Markets, said: "The campaign was not explicitly anti-EMU enough to read the SPD's poor showing as a vote for or against monetary union."

If the weekend political news was negative for the D-Mark, then regional inflation data had the opposite effect. Analysts said it was consistent with national inflation around 1.3 per cent, which should mean that inflation fears will not be an obstacle to the Bundesbank council cutting rates when it meets on Thursday.

One development on the subject of EMU yesterday came in the form of comments from Mr Hans Tietmeyer, the Bundesbank president, who said in a TV interview that there was "no difference of view between us and the federal government" (over monetary union). Last week there was speculation in the German press that Mr Tietmeyer preferred some sort of delay to the single currency.

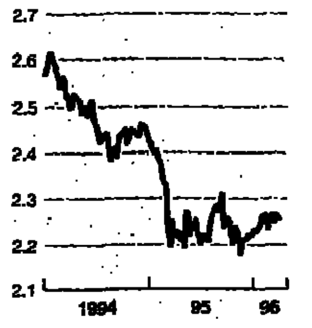
Speaking in Brussels, Mr Alfons Verplaetse, the Belgian central bank governor, warned against delaying EMU. "I am convinced that if EMU does not start on January 1, 1999, we will have to wait another 20 years before we will be in the same situation again."

One interesting angle on the EMU project emerges from economists at Merrill Lynch in New York. They note the following paradox: "Germans fear there is not enough of the Bundesbank in the European central bank. Other Europeans fear there is too much of the Bundesbank in the ECB." The concern among Germans, they argue, is that the Euro will be a weak imitation of the D-Mark. For other EU countries, though, with high unemployment, the worry is that "the new ECB, cast in the mould of the Bundesbank, will be less sympathetic to the task of reducing unemployment."

Interestingly, most US investors remain sceptical about EMU. Mr Byron Wien, a senior strategist at Morgan Stanley in New York, says: "In the US, most of us consider EMU a lost cause."

Sterling

Against the D-Mark (DM per £)



Source: FT Extel

■ Pound in New York

Mar 25	—Latest—	— Prev. close —
£ spot	1.5235	1.5305
1 mth	1.5227	1.5357
3 mth	1.5211	1.5347
1 yr	1.5131	1.5286

■ OTHER CURRENCIES

Mar 25	£	$
Czech Rp	41.4615 - 41.6012	27.1930 - 27.2050
Hungary	218.109 - 218.314	143.080 - 143.110
Iran	4575.50 - 4573.60	3000.00 - 3000.00
Kuwait	0.4554 - 0.4566	0.2988 - 0.2993
Poland	3.9319 - 3.9373	2.5790 - 2.5810
Russia	7380.59 - 7388.52	4841.00 - 4844.00
U.A.E.	5.5992 - 5.6032	3.6726 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Mar 25		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.8487	-0.0763	403 - 570	15.9206	15.7957	15.8187	2.3	15.7362	2.8	-	-	105.8
Belgium	(BFr)	46.3158	-0.2194	716 - 599	46.5610	46.1820	46.2108	2.7	46.0008	2.7	45.0808	2.7	106.1
Denmark	(DKr)	8.7027	-0.0434	978 - 076	8.7448	8.6741	8.6911	1.6	8.6683	1.7	8.5597	1.6	108.7
Finland	(FM)	7.0237	-0.0318	159 - 315	7.0590	7.0000	7.0183	0.8	7.0112	0.7	-	-	83.3
France	(FFr)	7.7133	-0.057	091 - 175	7.7709	7.6864	7.7012	1.9	7.678	1.8	7.5821	1.7	109.4
Germany	(DM)	2.2536	-0.0107	524 - 547	2.2636	2.2453	2.2488	2.6	2.2384	2.7	2.194	2.6	110.1
Greece	(Dr)	367.293	-2.855	053 - 493	368.988	361.043	-	-	-	-	-	-	66.5
Ireland	(I£)	0.9700	-0.0013	692 - 707	0.9719	0.9690	0.9693	0.9	0.9677	0.9	0.9627	0.7	97.5
Italy	(L)	2378.84	-19.87	775 - 993	2395.22	2371.80	2387.09	-4.2	2402.19	-3.9	2454.89	-3.2	74.0
Luxembourg	(LFr)	46.3158	-0.2194	716 - 599	46.5610	46.1820	46.2108	2.7	46.0008	2.7	45.0808	2.7	106.1
Netherlands	(Fl)	2.5220	-0.0125	205 - 235	2.5337	2.5136	2.5161	2.8	2.5038	2.9	2.4521	2.8	108.3
Norway	(NKr)	9.8001	-0.0511	914 - 087	9.8449	9.7672	9.7911	1.1	9.772	1.1	9.6783	1.3	98.6
Portugal	(Es)	232.799	-1.256	654 - 944	233.895	232.197	233.224	-2.2	234.129	-2.3	-	-	95.5
Spain	(Pta)	189.411	-0.881	310 - 513	190.528	188.768	189.848	-2.8	190.688	-2.7	193.511	-2.2	81.9
Sweden	(SKr)	10.1045	-0.0568	945 - 144	10.1608	10.0640	10.1057	-0.1	10.1074	-0.1	10.1096	-0.1	89.1
Switzerland	(SFr)	1.8180	-0.0136	167 - 192	1.8317	1.8130	1.8118	4.1	1.7986	4.3	1.7435	4.1	114.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	83.9
Ecu	-	1.2141	-0.0097	135 - 147	1.2230	1.2103	1.2128	1.3	1.2098	1.4	1.1965	1.5	-
SDR†	-	1.05168	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5250	-0.0097	244 - 255	1.5352	1.5224	-	-	-	-	-	-	-
Brazil	(R$)	1.5064	-0.0063	058 - 070	1.5150	1.5023	-	-	-	-	-	-	-
Canada	(C$)	2.0764	-0.0147	754 - 774	2.0914	2.0700	2.0757	0.4	2.072	0.8	2.064	0.6	84.4
Mexico	(New Peso)	11.5057	-0.0951	985 - 128	11.5769	11.4926	-	-	-	-	-	-	-
USA	($)	1.5251	-0.0097	246 - 255	1.5354	1.5222	1.5243	0.6	1.5226	0.6	1.515	0.7	95.6
Pacific/Middle East/Africa													
Australia	(A$)	1.9713	-0.0046	700 - 725	1.9822	1.9644	1.9739	-1.6	1.9789	-1.5	2.0042	-1.7	90.4
Hong Kong	(HK$)	11.7922	-0.0744	876 - 984	11.8702	11.7704	11.7841	0.8	11.7725	0.7	11.7527	0.3	-
India	(Rs)	52.0424	-0.083	384 - 484	53.2930	51.8230	-	-	-	-	-	-	-
Israel	(Shk)	4.7200	-0.0158	148 - 252	4.7364	4.7004	-	-	-	-	-	-	-
Japan	(Y)	161.854	-1.978	730 - 978	163.560	161.440	161.094	5.6	159.539	5.7	153.164	5.4	136.9
Malaysia	(M$)	3.8790	-0.0248	771 - 809	3.9030	3.8725	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2184	-0.0142	176 - 212	2.2362	2.2154	2.2244	-3.7	2.2338	-2.8	2.2677	-2.2	107.4
Philippines	(Peso)	39.9564	-0.2707	683 - 444	40.1500	39.8550	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7196	-0.0366	176 - 215	5.7582	5.7092	-	-	-	-	-	-	-
Singapore	(S$)	2.1457	-0.0179	443 - 471	2.1634	2.1422	-	-	-	-	-	-	-
South Africa	(R)	6.0007	-0.0186	978 - 036	6.0221	5.9768	-	-	-	-	-	-	-
South Korea	(Won)	1192.87	-10.69	224 - 309	1203.75	1190.51	-	-	-	-	-	-	-
Taiwan	(T$)	41.5790	-0.3195	575 - 004	41.9134	41.5104	-	-	-	-	-	-	-
Thailand	(Bt)	38.5075	-0.2616	809 - 341	38.7640	38.4510	-	-	-	-	-	-	-

† Rates for Mar 22. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The FT will not be published on Friday, April 5th. Exchange rates for April 5th will appear in Saturday April 6th edition. Exchange rates for Thursday April 4th will not be published but are available on Cityline 0891 437001

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 25		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	10.3922	+0.0163	898 - 946	10.3950	10.3610	10.3749	2.0	10.3387	2.1	10.1772	2.1	105.8
Belgium	(BFr)	30.3700	+0.05	500 - 900	30.3960	30.2650	30.317	2.1	30.2105	2.1	29.73	2.1	107.8
Denmark	(DKr)	5.7065	+0.008	050 - 080	5.7081	5.6810	5.7015	1.1	5.6915	1.1	5.714	-0.1	108.0
Finland	(FM)	4.6056	+0.0088	016 - 093	4.6100	4.5935	4.5831	1.7	4.5871	1.5	4.5416	1.4	82.6
France	(FFr)	5.0578	-0.005	565 - 590	5.0625	5.0442	5.0522	1.3	5.0425	1.2	5.0003	1.1	108.7
Germany	(DM)	1.4777	+0.0024	774 - 780	1.4780	1.4724	1.4752	2.0	1.4701	2.1	1.447	2.1	109.5
Greece	(Dr)	240.840	-0.33	780 - 900	241.780	236.610	242.515	-8.3	245.865	-8.3	259.84	-7.9	65.9
Ireland	(I£)	1.5723	-0.0079	715 - 730	1.5800	1.5685	1.5728	-0.3	1.5731	-0.2	1.5625	0.6	-
Italy	(L)	1559.85	-2.9	859 - 010	1563.07	1555.75	1565.9	-4.7	1577.45	-4.5	1618.35	-3.8	73.3
Luxembourg	(LFr)	30.3700	+0.05	500 - 900	30.3960	30.2650	30.317	2.1	30.2105	2.1	29.73	2.1	107.8
Netherlands	(Fl)	1.6537	+0.0023	532 - 542	1.6545	1.6492	1.6506	2.2	1.6443	2.3	1.6172	2.2	107.7
Norway	(NKr)	6.4261	+0.0005	223 - 298	6.4300	6.4067	6.4231	0.6	6.4176	0.5	6.3611	0.7	97.8
Portugal	(Es)	152.650	+0.15	600 - 700	152.940	152.230	152.965	-2.5	153.565	-2.4	155.7	-2.0	95.5
Spain	(Pta)	124.200	+0.215	170 - 230	124.250	123.900	124.54	-3.3	125.21	-3.3	127.58	-2.7	81.9
Sweden	(SKr)	6.6257	+0.0051	211 - 302	6.6393	6.6113	6.6366	-2.0	6.6542	-1.7	6.6962	-1.1	88.4
Switzerland	(SFr)	1.1921	-0.0014	916 - 925	1.1933	1.1885	1.1895	2.6	1.1813	3.6	1.1501	3.5	113.9
UK	(£)	1.5251	-0.0097	246 - 255	1.5354	1.5222	1.5243	0.6	1.5226	0.6	1.515	0.7	83.4
Ecu	-	1.2562	+0.002	559 - 564	1.2589	1.2547	1.257	-0.7	1.2586	-0.8	1.2674	-0.9	-
SDR†	-	0.68634	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.0000	-	999 - 000	1.0000	0.9999	-	-	-	-	-	-	-
Brazil	(R$)	0.9878	+0.0009	877 - 879	0.9883	0.9866	-	-	-	-	-	-	-
Canada	(C$)	1.3616	-0.0009	613 - 618	1.3632	1.3591	1.3614	0.1	1.3617	0.0	1.3645	-0.2	83.6
Mexico	(New Peso)	7.5445	-0.014	420 - 470	7.5470	7.5270	7.5468	-0.4	7.5498	-0.3	7.5548	-0.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.7
Pacific/Middle East/Africa													
Australia	(A$)	1.2925	+0.0052	922 - 930	1.2935	1.2905	1.2945	-1.8	1.298	-1.7	1.3167	-1.9	92.2
Hong Kong	(HK$)	7.7323	+0.0006	318 - 328	7.7330	7.7315	7.733	-0.1	7.7348	-0.1	7.7618	-0.4	-
India	(Rs)	34.1250	-0.425	000 - 500	34.7500	34.0000	34.275	-5.3	34.58	-5.3	36.05	-5.6	-
Israel	(Shk)	3.0950	+0.0094	925 - 975	3.0975	3.0850	-	-	-	-	-	-	-
Japan	(Y)	106.130	-0.615	080 - 180	106.680	105.970	105.685	5.0	104.785	5.1	101.045	4.8	136.4
Malaysia	(M$)	2.5435	-	430 - 440	2.5440	2.5423	2.5444	-0.4	2.5505	-1.1	2.574	-1.2	-
New Zealand	(NZ$)	1.4552	-	545 - 560	1.4564	1.4544	1.4583	-2.6	1.4641	-2.4	1.4887	-2.3	-
Philippines	(Peso)	26.2000	-0.01	500 - 500	26.2500	26.1500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	-0.0001	502 - 506	3.7507	3.7502	3.7508	-0.1	3.7515	-0.1	3.7549	-0.1	-
Singapore	(S$)	1.4070	-0.0027	065 - 075	1.4104	1.4060	1.4035	3.0	1.3975	2.7	1.372	2.5	-
South Africa	(R)	3.9348	+0.0128	340 - 355	3.9360	3.9215	3.9536	-5.8	4.0151	-8.2	4.2383	-7.7	-
South Korea	(Won)	782.050	-2	000 - 100	783.500	781.100	785.05	-4.6	788.55	-3.3	807.05	-3.2	-
Taiwan	(T$)	27.2640	-0.035	580 - 700	27.2700	27.1950	27.284	-0.9	27.324	-0.9	-	-	-
Thailand	(Bt)	25.2500	-0.01	400 - 600	25.2600	25.2400	25.3487	-4.7	25.5525	-4.8	26.435	-4.7	-

† SDR rate per $ for Mar 22. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Mar 22: Base average 1990=100. Index rebased 1/2/95. The FT will not be published on Friday, April 5th. Exchange rates for April 5th will appear in Saturday April 6th edition. Exchange rates for Thursday April 4th will not be published but are available on Cityline 0891 437001

WORLD INTEREST RATES

MONEY RATES

March 25	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3 5/16	3 11/32	3 13/32	3 15/32	3 11/16	7.00	3.00	-
week ago	3 1/4	3 11/32	3 3/8	3 13/32	3 7/16	7.00	3.00	-
France	3 21/32	4 1/8	4 3/8	4 5/8	4 1/2	3.80	-	5.60
week ago	4 1/8	4 1/8	4 1/4	4 3/8	4 1/2	3.80	-	5.60
Germany	3 3/8	3 3/8	3 5/32	3 1/8	3 1/8	5.00	3.00	3.30
week ago	3 1/4	3 3/8	3 5/16	3 3/8	3 13/32	5.00	3.00	3.30
Ireland	5 1/16	5 3/8	5 1/2	5 3/8	5 1/4	-	-	6.25
week ago	5 1/4	5 1/8	5 1/2	5 3/8	5 1/2	-	-	6.25
Italy	9 7/8	9 15/16	9 3/4	9 5/8	9 1/2	-	9.00	9.98
week ago	9 25/32	9 15/16	9 3/4	9 5/8	9 13/16	-	9.00	9.87
Netherlands	3 3/8	3 1/4	3 1/8	3 1/8	3 1/8	-	3.00	3.30
week ago	3 1/2	3 1/2	3 3/8	3 1/2	3 3/8	-	3.00	3.30
Switzerland	1 1/2	1 3/4	1 5/8	1 5/8	1 5/8	5.00	1.50	-
week ago	2 3/8	1 3/4	1 3/4	1 3/4	2	5.00	1.50	-
US	5 1/4	5 3/16	5 1/4	5 3/8	5 3/8	-	5.00	-
week ago	5 3/8	5 3/16	5 5/16	5 13/32	5 13/32	-	5.00	-
Japan	15/32	1/2	15/32	19/32	5/8	-	0.50	-
week ago	13/32	1/2	17/32	9/16	5/8	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5 11/32	5 7/16	5 9/16	5 13/16	-	-	-
week ago	-	5 11/32	5 7/16	5 1/2	5 3/4	-	-	-
US Dollar CDs	-	4.98	5.10	5.18	5.40	-	-	-
week ago	-	4.98	5.16	5.24	5.43	-	-	-
ECU Linked Ds	-	4 5/8	4 5/8	4 5/8	4 13/16	-	-	-
week ago	-	4 5/8	4 5/8	4 5/8	4 5/8	-	-	-
SDR Linked Ds	-	3 1/4	3 5/16	3 11/32	3 1/2	-	-	-
week ago	-	3 1/4	3 3/8	3 11/32	3 1/2	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Mar 25	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3 11/32 - 3 1/4	3 11/32 - 3 1/4	3 13/32 - 3 5/16	3 13/32 - 3 5/16	3 13/32 - 3 5/16	3 15/32 - 3 13/32
Danish Krone	4 3/32 - 3 29/32	4 1/4 - 4 1/32	4 5/16 - 4 1/8	4 5/16 - 4 3/16	4 3/8 - 4 3/16	4 5/16 - 4 11/32
D-Mark	3 1/4 - 3 1/8	3 1/2 - 3 1/4	3 3/8 - 3 1/4	3 11/32 - 3 7/32	3 3/8 - 3 1/4	3 13/32 - 3 9/32
Dutch Guilder	3 3/16 - 3 1/16	3 3/16 - 3 1/16	3 7/16 - 3 3/32	3 3/16 - 3 3/32	3 3/16 - 3 3/32	3 13/32 - 3 9/32
French Franc	4 1/8 - 3 15/16	4 3/32 - 3 31/32	4 3/32 - 4	4 1/4 - 4 3/32	4 3/8 - 4 1/4	4 5/16 - 4 3/8
Portuguese Esc.	7 15/16 - 7 27/32	7 7/8 - 7 3/4	7 7/8 - 7 13/16	7 7/8 - 7 25/32	7 29/32 - 7 13/16	7 7/8 - 7 25/32
Spanish Peseta	8 11/32 - 8 1/4	8 13/32 - 8 1/4	8 11/32 - 8 5/32	8 11/32 - 8 7/32	8 11/32 - 8 7/32	8 5/16 - 8 3/16
Sterling	5 15/16 - 5 13/16	5 15/16 - 5 13/16	6 - 5 15/16	6 1/16 - 6	6 3/32 - 6 1/32	6 3/8 - 6 5/16
Swiss Franc	1 3/4 - 1 5/8	2 3/8 - 2 1/8	1 13/16 - 1 11/16	1 7/8 - 1 3/4	1 7/8 - 1 3/4	2 - 1 7/8
Can. Dollar	4 13/16 - 4 5/8	4 15/16 - 4 3/4	5 - 4 7/8	5 1/16 - 4 15/16	5 1/4 - 5 1/8	5 3/16 - 5 7/16
US Dollar	5 3/16 - 5 1/4	5 3/16 - 5 3/16	5 7/16 - 5 5/16	5 7/16 - 5 1/4	5 15/32 - 5 9/32	5 11/16 - 5 7/16
Italian Lira	10 3/16 - 9 7/16	9 13/16 - 9 11/16	9 7/8 - 9 3/4	9 3/4 - 9 23/32	9 5/8 - 9 1/2	9 1/2 - 9 3/8
Yen	1/2 - 1/16	1 1/16 - 1 1/16	21/32 - 19/32	11/16 - 9/16	27/32 - 23/32	13/16 - 23/32
Asian $Sing	2 5/16 - 2 3/16	2 1/2 - 2 3/8	2 3/8 - 2 1/4	2 1/2 - 2 3/8	2 1/2 - 2 3/8	2 3/4 - 2 5/8

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (FFr5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.41	95.52	+0.14	95.53	95.51	32,420	53,926
Sep	95.41	95.50	+0.14	95.52	95.41	9,781	45,540
Dec	95.30	95.39	+0.13	95.40	95.30	4,656	25,117

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.75	96.78	+0.05	96.80	96.75	26020	233020
Sep	96.62	96.69	+0.08	96.70	96.62	29596	231516
Dec	96.37	96.43	+0.08	96.45	96.37	38107	171894
Mar	96.05	96.11	+0.09	96.13	96.05	15002	114736

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	90.67	90.67	+0.03	90.70	90.66	5366	39553
Sep	91.04	91.07	+0.05	91.08	91.04	2682	21367
Dec	91.09	91.11	+0.07	91.15	91.09	608	16376
Mar	91.00	91.01	+0.07	91.03	90.98	210	7592

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.21	98.26	+0.07	98.26	98.21	6771	28866
Sep	98.09	98.16	+0.10	98.17	98.09	3762	12893
Dec	97.87	97.89	+0.09	97.90	97.85	2325	8820
Mar	97.55	97.55	+0.07	97.57	97.54	1469	1763

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.40	95.45	+0.06	95.45	95.40	1119	9382
Sep	95.39	95.41	+0.09	95.43	95.39	147	3623
Dec	95.15	95.21	+0.10	95.21	95.15	177	3039
Mar	94.87	94.91	+0.08	94.91	94.87	75	1761

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9050	0.42	0.82	0.95	0.25	0.25	0.34
9075	0.28	0.65	0.78	0.36	0.33	0.42
9100	0.17	0.49	0.63	0.50	0.42	0.52

Est. vol. total, Calls 900 Puts 2. Previous day's open int., Calls 15887 Puts 9737

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 25		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.79	16.65	4.866	2.094	5136	5.445	21.16	502.6	408.9	21.80	3.925	2.159	4.482	3.292	349.5	2.621
Denmark	(DKr)	53.22	10	8.862	2.590	1.115	2734	2.898	11.26	267.5	217.6	11.61	2.089	1.149	2.385	1.752	186.0	1.395
France	(FFr)	60.05	11.28	10	2.922	1.258	3084	3.270	12.71	301.8	245.6	13.09	2.357	1.297	2.692	1.977	209.9	1.574
Germany	(DM)	20.55	3.861	3.422	1	0.430	1055	1.119	4.348	103.3	84.03	4.481	0.807	0.444	0.921	0.677	71.83	0.539
Ireland	(I£)	47.75	8.972	7.952	2.324	1	2453	2.600	10.10	240.0	195.3	10.41	1.874	1.031	2.140	1.572	166.9	1.252
Italy	(L)	1.947	0.366	0.324	0.095	0.041	100.	0.106	0.412	9.786	7.961	0.425	0.076	0.042	0.087	0.064	6.805	0.051
Netherlands	(Fl)	18.37	3.451	3.058	0.894	0.385	943.3	1	3.886	92.31	75.10	4.005	0.721	0.397	0.823	0.605	64.20	0.481
Norway	(NKr)	47.27	8.881	7.870	2.300	0.990	2428	2.573	10	237.6	193.3	10.31	1.855	1.020	2.118	1.556	165.2	1.239
Portugal	(Es)	19.90	3.738	3.313	0.968	0.417	1022	1.083	4.210	100.	81.36	4.338	0.781	0.430	0.892	0.655	69.54	0.521
Spain	(Pta)	24.46	4.595	4.072	1.190	0.512	1256	1.332	5.174	122.9	100.	5.333	0.960	0.528	1.096	0.805	85.48	0.641
Sweden	(SKr)	45.88	8.617	7.637	2.232	0.960	2355	2.497	9.703	230.5	187.5	10	1.800	0.990	2.055	1.510	160.3	1.202
Switzerland	(SFr)	25.48	4.787	4.243	1.240	0.534	1309	1.387	5.391	128.1	104.2	5.556	1	0.550	1.142	0.839	89.05	0.668
UK	(£)	46.32	8.703	7.713	2.254	0.970	2379	2.522	9.800	232.8	189.4	10.10	1.818	1	2.076	1.525	161.9	1.214
Canada	(C$)	22.31	4.192	3.715	1.086	0.467	1146	1.215	4.721	112.1	91.23	4.865	0.876	0.482	1	0.735	77.99	0.585
US	($)	30.37	5.707	5.058	1.478	0.636	1560	1.654	6.426	152.7	124.2	6.623	1.192	0.656	1.361	1	106.2	0.796
Japan	(Y)	28.61	5.376	4.764	1.392	0.599	1469	1.558	6.053	143.8	117.0	6.238	1.123	0.618	1.282	0.942	100.	0.750
Ecu		38.15	7.169	6.353	1.857	0.799	1960	2.077	8.072	191.8	156.0	8.320	1.498	0.824	1.710	1.256	133.4	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6818	0.6800	-0.0002	0.6820	0.6800	13,338	53,436
Sep	-	0.6845	+0.0006	0.6845	-	9	2,105
Dec	-	0.6878	+0.0002	0.6878	-	1	196

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9502	0.9539	+0.0077	0.9545	0.9480	16,441	67,359
Sep	0.9647	0.9647	+0.0072	0.9647	0.9647	19	1,097
Dec	0.9768	0.9785	+0.0077	0.9768	0.9768	7	1,021

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8447	0.8462	+0.0025	0.8479	0.8447	8,603	26,897
Sep	-	0.8545	+0.0026	0.8545	-	76	565
Dec	-	0.8594	-	-	-	2	504

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5330	1.5202	-0.0132	1.5348	1.5202	9,044	38,224
Sep	1.5170	1.5190	-0.0124	1.5208	1.5170	1	37
Dec	-	1.5170	-0.0124	-	1.5170	3	32

UK INTEREST RATES

LONDON MONEY RATES

Mar 25	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 1/4 - 5 1/2	6 - 5 3/4	6 1/16 - 5 15/16	6 1/8 - 6	6 1/8 - 6	6 3/8 - 6 1/4
Sterling CDs	-	-	6 - 5 15/16	6 - 5 31/32	6 - 5 31/32	6 - 5 31/32
Treasury Bills	-	-	5 15/16 - 5 13/16	5 27/32 - 5 25/32	-	-
Bank Bills	-	-	5 15/16 - 5 7/8	5 7/8 - 5 13/16	5 7/8 - 5 13/16	-
Local authority deps.	5 7/8 - 5 3/4	5 15/16 - 5 13/16	6 - 5 7/8	6 1/16 - 5 15/16	6 1/16 - 6	6 1/4 - 6 1/8
Discount Market deps	6 - 5 1/2	5 13/16 - 5 13/16	-	-	-	-

UK clearing bank base lending rate 6 per cent from March 8, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2 1/2	5 1/2	5	5	4 3/4

Certs of Tax dep. under £100,000 is 2 1/2pc. Deposits withdrawn for cash 1 1/4pc.
Ave. tender rate of discount on Mar 22, 5.7758pc. ECGD fixed rate Stlg. Export Finance. Make up day Feb 28, 1996. Agreed rate for period Mar 26, 1996 to Apr 23, 1996, Schemes II & III 7.48pc. Reference rate for period Feb 1, 1996 to Feb 29, 1996, Schemes IV & V 6.238pc. Finance House Base Rate 6.5pc from March 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.92	93.94	+0.01	93.94	93.91	10459	80280
Sep	93.72	93.74	+0.01	93.75	93.68	9926	58141
Dec	93.35	93.40	+0.02	93.42	93.32	12525	49873
Mar	92.97	92.99	+0.01	93.00	92.92	4557	33978
Jun	92.65	92.65	+0.01	92.66	92.59	1540	31559

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9375	0.25	0.27	0.27	0.06	0.28	0.62
9400	0.10	0.15	0.18	0.16	0.41	0.78
9425	0.03	0.08	0.12	0.34	0.59	0.97

Est. vol. total, Calls 4979 Puts 537. Previous day's open int., Calls 110473 Puts 103398

EMS EUROPEAN CURRENCY UNIT RATES

Mar 25	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	159.037	-0.143	-2.13	5.27	15
Netherlands	2.15214	2.11827	-0.00114	-1.57	4.67	12
Belgium	39.3960	38.8905	-0.0274	-1.28	4.37	9
Austria	13.4383	13.3110	-0.0067	-0.95	4.01	7
Germany	1.91007	1.89272	-0.00084	-0.91	3.97	9
Portugal	195.792	195.465	-0.101	-0.17	3.20	1
Denmark	7.28580	7.31008	-0.00299	0.33	2.69	-2
France	6.40608	6.48239	-0.01641	1.19	1.81	-10
Ireland	0.792214	0.816186	+0.005521	3.03	0.00	-20
NON ERM MEMBERS						
Greece	292.867	309.136	-0.466	5.56	-2.39	-
Italy	2106.15	2003.05	-2.83	-4.90	8.33	-
UK	0.786652	0.841589	+0.006974	6.98	-3.70	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Apr	May	Jun	PUTS Apr	May	Jun
1.500	3.29	3.54	3.98	0.07	0.30	0.84
1.510	2.42	2.76	3.29	0.16	0.53	1.15
1.520	1.61	2.12	2.67	0.27	0.84	1.52
1.530	0.95	1.54	2.17	0.60	1.25	1.96
1.540	0.49	1.07	1.70	1.14	1.78	2.51
1.550	0.20	0.71	1.31	1.85	2.42	3.04

Previous day's vol., Calls 3,524 Puts 6,922 . Prev. day's open int., Calls 141,121 Puts 150,588

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.59	94.62	+0.03	94.62	94.59	38,532	429,074
Sep	94.44	94.51	+0.07	94.51	94.44	28,707	322,890
Dec	94.23	94.31	+0.08	94.32	94.23	31,548	303,351

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	-	95.02	-	-	-	320	1,914
Jun	95.10	95.11	+0.03	95.11	95.09	292	9,706
Sep	94.94	94.98	+0.08	94.98	94.84	190	3,125

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Apr	May	Jun	Sep	PUTS Apr	May	Jun	Sep
9675	0.08	0.10	0.12	0.16	0.05	0.07	0.09	0.22
9700	0.01	0.03	0.04	0.07	0.23	0.25	0.26	0.38
9725	0	0.01	0.01	0.02	0.47	0.48	0.48	0.58

Est. vol. total, Calls 19867 Puts 7248. Previous day's open int., Calls 317339 Puts 285004

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9825	0.14	0.18	0.15	0.13	0.27	0.51
9850	0.05	0.08	0.07	0.29	0.42	0.68
9875	0.01	0.04	0.03	0.50	0.63	0.89

Est. vol. total, Calls 0 Puts 2. Previous day's open int., Calls 5065 Puts 3048

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.25	●Singer & Friedlander	6.00
AIB Bank	6.00	Financial & Gen Bank	7.00	●Smith & Williamson Secs	6.00
●Henry Ansbacher	6.00	●Robert Fleming & Co	6.00	TSB	6.00
Bank of Baroda	6.00	Girobank	6.00	United Bank of Kuwait	6.00
Banco Bilbao Vizcaya	6.00	●Guinness Mahon	6.00	Unity Trust Bank Plc	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	Western Trust	6.00
Bank of Ireland	6.00	●Hambros Bank	6.00	Whiteaway Laidlaw	6.00
Bank of India	6.00	Heritable & Gen Inv Bk	6.00	Yorkshire Bank	6.00
Bank of Scotland	6.00	●Hill Samuel	6.00		
Barclays Bank	6.00	C. Hoare & Co	6.00	● Members of London Investment Banking Association	
Brit Bk of Mid East	6.00	Hongkong & Shanghai	6.00	* In administration	
●Brown Shipley & Co Ltd	6.00	Julian Hodge Bank	6.00		
Citibank NA	6.00	●Leopold Joseph & Sons	6.00		
Clydesdale Bank	6.00	Lloyds Bank	6.00		
The Co-operative Bank	6.00	Meghraj Bank Ltd	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Credit Lyonnais	6.00	* Mount Credit Corp	6.25		
Cyprus Popular Bank	6.25	NatWestminster	6.00		
		●Rea Brothers	6.00		

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq		497	-11	566	476½	5,148	5.9	18.0
Bulmer (HP)		582	+3	588	401	307.3	2.6	18.3
Burn St Dist		117	—	148	99	69.4	5.3	25.2
Grand Met		430xd	-4	467	374	9,004	4.3	18.5
Guinness		488	+2	536	435	9,481	4.1	15.6
Highland		348	—	406	315	463.5	2.8	15.6
Kirin Y		758½	+10½	806	621	7,982	0.8	29.2
Macallan-Glen		184	—	217	157	152.6	1.0	36.4
Macdon Martin A		638	+5	680	600	87.4	2.1	18.0
Matthew Clark		725xd	+7	725	554	640.2	3.8	—
Merrydown		103	+1	140	68	11.2	2.3	—
Seagram S		£21[illegible]	[illegible]	£25[illegible]	£16[illegible]	5,873	1.3	—

BANKS, MERCHANT

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Barings 8pc Cn 2nd Pf		50½xr	—	50½	50½	8.31	19.8	—
Cater Allen		450	—	525	424	148.7	8.3	7.4
Close Bros		376xd	-1	392	251¼	451.8	3.1	16.4
Gerrard & Nat		404	—	472	393	197.6	7.0	13.0
Hambros		234	+1	239	180	413.8	4.0	—
7½pc Cv Pf		106½xd	—	108	94½	137.2	8.8	—
King & Shaxson		152	—	186	85	40.1	7.4	11.8
Leopold J		493	+3	493	353	24.0	5.2	15.6
Rea Brothers		58	—	67	43	28.5	2.1	♣
Schroders		1218xd	-8½	1478	1015¼	1,839	1.6	17.0
N/V		933xd	-8½	1180	894	410.9	2.1	13.0
Singer & Fried		102	+½	113	81	201.4	5.0	8.0
8½pc Cv Ln 09/14		£125¼xd	-5	£137	£1[illegible]	38.4	6.6	—

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or −	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£29¾	—	234½	£29½	1,985	3.1	Φ
Barlow	Φ	28½	−⅛	210½	25⅞	1,714	1.6	Φ
Energy Africa		170½	+1	174	168½	155.6	–	–
Gold Flds Prop R		168xd	+3	170	138	16.3	6.3	7.6
NK Props		80	—	96	85	3.82	11.8	–
SASOL	♥	636	—	648	475	3,724	2.0	–
SA Brews		£21⅛	−⅛	£28½	£16⅛	5,494	1.5	31.2
Standard Bank	□	£30½	+⅛	£32⅞	£20⅛	3,661	1.4	22.4
Tiger Oats		1100	—	1270	850	1,654	1.6	Φ
Tongaat-Hulett	†	967	−23	1247	672	915.4	1.9	19.5

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR "Headline Earnings" formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♧ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
r Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Forecast annualise yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Guernsey Funds Ltd

Jupiter Tyndall (Bermuda) Ltd

BERMUDA (REGULATED)(**)

Bermuda Intl Invest Mgmt Ltd

Orbis Investment Management Ltd

GUERNSEY (SIB RECOGNISED)

AIB Investment Managers (Guernsey) Ltd

Equitable International Fund Managers Ltd

Lazard Fund Managers (Channel Islands) Ltd

M & G (Guernsey) Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Global Portfolio Management (Guernsey) Ltd

Lazard Fund Managers (CI) Ltd

Lloyds Bank Fund Managers (Guernsey) Ltd

Merrill Lynch Guernsey

Royal Bank of Canada Intl Money Market Fd

Schroder Investment Mngmt (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

AIB Fund Management Ltd

Guinness Flight Select Funds Plc

Morgan Grenfell Investment Funds Ltd

IRELAND (REGULATED)(**)

Chemical Ireland Fund Administrators Ltd

Ashburton Global Funds Ltd

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

John Govett Management - Contd.

LUXEMBOURG (SIB RECOGNISED)

Rothschild Asset Management

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الأصل

هكذا من الأصل

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• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

OFFSHORE INSURANCES

[illegible]

MANAGED FUNDS NOTES

[illegible]

LONDON STOCK EXCHANGE

MARKET REPORT

More bid speculation fails to halt market slide

By Steve Thompson, UK Stock Market Editor

A nationwide preoccupation with "mad cow disease" and its implications for the various sectors of the stock market, plus a sudden realisation that the scare could have big implications for the economy, weighed heavily on share prices yesterday. The market's two main indices, the FT-SE 100 and the FT-SE Mid 250, lost their recently hard won 3,700 and 4,300 levels.

At the close of a rather tense and unhappy session, the FT-SE 100-share index was left nursing a 25.1 decline at 3,681.9.

It was only the constant feeling that another big bid, or series of bids, could appear at any moment that prevented a much steeper fall in the market.

And the recent confident performance of the FT-SE Mid 250 index, which has been founded on takeover prospects, mostly in utilities, was undermined by hefty losses associated with the UK beef scare. The FT-SE Mid 250 lost 7.8 at 4,298.5.

Dealers complained that turnover had been badly affected by the beef disease worries. At 6pm, trading volume in equities had reached 690.1m shares, not too bad for a Monday, when market activity is traditionally restrained.

Volume was boosted by heavy turnover in a handful of smaller stocks such as Birse Group, Bula, Queens Moat and Regent Corporation. The combined turnover of that group accounted for 82m shares, or around 12 per cent of the total.

There were other reasons behind the market's disappointing showing but it was mostly the "mad cow" story that unsettled sentiment.

Reassuring comments by the government about the BSE scare did precious little to sooth frayed nerves in the market, where the biggest impact was in the food manufacturing and retailing areas.

Gilts came under early selling pressure after strategists pointed out the likely dangers to the public sector borrowing requirement and the balance of payments of any moves to destroy the UK's dairy and beef herds. Towards the close they rallied well, however, finishing well up on the day in the wake of firm US Treasury bonds ahead of today's Federal Open Market Committee meeting.

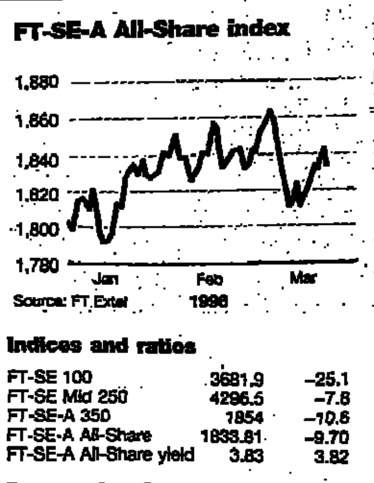
Some substantial selling of stocks, such as Northern Foods and Unigate, both heavily involved in milk sales in the UK, plus equally significant weakness in animal feed stocks such as Harrisons & Crosfield and Dalgety, drove the market sharply lower from the outset.

Dealers also pointed to the damage the beef scare had done to the government's credibility. "This whole thing has run out of control and is damaging sentiment in the market; the government will not be forgiven for this one," said a senior trader.

Thereafter there was no real respite for the market, with the Footsie losing ground throughout the day and dipping significantly an hour before the close.

The day's takeover speculation focused principally on Thorn EMI, where dealers became increasingly excited about a rumoured bid from Time-Warner and Ladbroke, where talk of a takeover offer from any one of three companies has long been in the market.

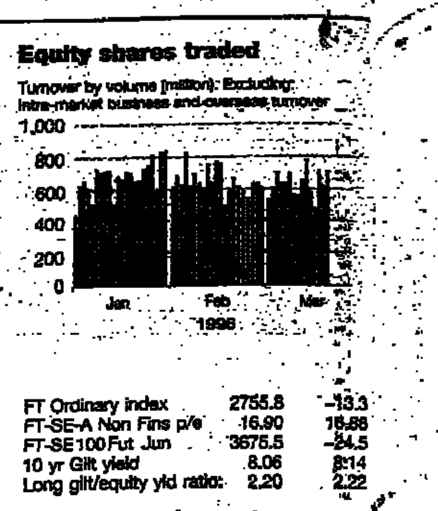
FT-SE-A All-Share Index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3681.9	-25.1
FT-SE Mid 250	4298.5	-7.8
FT-SE-A 350	1854	-10.6
FT-SE-A All-Share	1833.81	-9.70
FT-SE-A All-Share yield	3.83	3.82
FT Ordinary index	2755.8	-13.3
FT-SE-A Non Fins p/e	16.90	16.88
FT-SE 100 Fut Jun	3676.5	-24.5
10 yr Gilt yield	8.06	8.14
Long gilt/equity yld ratio:	2.20	2.22

Best performing sectors

1	Distributors	+0.9
2	Engineering: Vehicles	+0.5
3	Oil Integrated	+0.3
4	Electronic & Elec	+0.2
5	Investment Trusts	+0.2

Worst performing sectors

1	Life Assurance	-3.1
2	Diversified Inds	-1.2
3	Food Producers	-1.1
4	Paper, Pckg & Print	-1.1
5	Household Goods	-1.0

Mad cow fears hit dairies

Fears about the likely impact of the current cattle scare cast a shadow over several food manufacturing stocks.

Northern Foods and Unigate tumbled early in the session, as fears circulated that the government was about to announce a cull of several million cattle. The worry was that such a move would greatly reduce the number of cattle available for milk production.

Dealers highlighted the fact that the former derived around 50 per cent of trading profits from milk sales last year, while the figure for Unigate was around 40 per cent.

A government statement late in the day, which announced no further measures, was viewed with some scepticism. One observer said: "The government may have said nothing about a slaughter today, but there is a feeling that one has not been ruled out for the near future. These shares will continue to be overshadowed by these fears."

At the close, Northern was down 16 at 183p, the worst performer in the FT-SE Mid 250 index, while Unigate gave up 30 to 407p. Robert Wiseman Dairies fell 25 to 137p.

Animal feeds specialists were also hit. Harrisons & Crosfield, which gets some 15 per cent of operating profits from feedstocks, came off 11 to 154p in trade of 8.1m. Dalgety finished 14 lower at 424p; volume reached 3.5m shares.

Talk that investors in debt-ridden Eurotunnel were about to be squeezed out by a special financing vehicle sent shares in the Channel tunnel operator dropping to a new all-time low.

Shareholders were said to be taking a back seat under a plan aimed at restructuring the group's £9bn of borrowings. There were worries that a special vehicle, to be set up by Morgan Stanley, would take the first slice of the Channel tunnel operator's revenue.

Eurotunnel shares fell 5½ to 68p; 26 months ago they stood just short of 600p.

British Airways moved ahead against the trend, adding 3 at 532p, as big fund manager Mercury Asset Management lifted its investment in the airline by almost a percentage point to 13 per cent.

Royal Bank of Scotland shares looked shaky, as the bank approached the end of its first half. The bank has been seeing analysts before it goes into closed season at the end of the month. It has apparently been telling them that, while profits at the bank are likely to be healthy, its Direct Line insurance subsidiary has had a tough time.

Most insurance specialists were aware of the viciously competitive environment in motor insurance. But they had not factored in the claims boost from the harsh winter – especially in Scotland.

Estimates for Direct Line's profit contribution are being cut back by around 20 per cent, according to some specialists.

Also, the takeover speculation that has lifted Royal Bank for some time has begun to dissipate for two reasons. Firstly, HSBC, the favoured aggressor, has recently been linked with Standard Chartered instead.

Secondly, some reasonable sized issuance of debt from RBoS last week generated talk that it was poised to buy a building society. If that were to happen, the bank would be a larger and less palatable morsel to swallow. The shares fell 6 to 516p, making a slide of around 5.5 per cent over the past four trading days.

News of capital restructuring at Securicor sparked talk of an imminent release of shareholder value and drove the "A" shares up by about 7 per cent. The security and telecoms group is to bring its 40 per cent shareholding in mobile phones operator Cellnet, currently divided between Securicor and a subsidiary, Security Services, into one company. Simplification of the structure, which had previously involved four classes of capital, was seen as making a takeover more likely.

The plan was also interpreted as paving the way for a Cellnet disposal. BT owns 60 per cent of Cellnet and speculation of a sale to the telecoms giant periodically surfaces in spite of a government veto on any deal.

Air Touch, the US mobile phones group, was mentioned as a possible buyer and so was Danish group TeleDanmark. But BT remained most dealers' hot favourite. "The mobile market is now much more competitive, and we may have a new government shortly anyway. Do not write off a deal with BT," said a leading analyst.

Securicor fanned the speculative flames by confirming that talks with a third party had taken place and claiming that any disposal would not necessarily involve a tax liability.

Securicor "A" ended as the top FT-SE Mid 250 stock, up 67 at 1055p, and Security Services rose 65 to 1050p.

South West Water is the damsel in distress over the unwelcome attention of Severn Trent and Wessex. And the possibility of an American "white knight" charging into the rescue lifted its share price by 9 to 676p yesterday.

Other takeover targets also continued to attract attention in an otherwise quiet market. Thames Water moved up 3 to 581p and Southern was 4 higher at 758p.

National Grid put on 2 at 192½p, as one institution bought heavily and pushed the turnover to 6m shares.

Speculation that Thorn EMI may be on the receiving end of a £22 a share bid from US group Time Warner helped the stock rise 15 to 1683p.

Shares in Manchester United, which reports figures today, were in demand following the football team's rise to the top of the Premier League. The shares gained 28 at 286p.

Among food retailers, heavy trading in Asda Group options prompted demand for the equities. The shares hardened 1¼ to 104¾p. Volume in the equities reached 12m, while the equivalent of 2.3m were dealt in the traded options sector.

Insurance broker Sedgwick ticked ahead 2 to 132p on talk that Alexander & Alexander, the US broker, was taking a hard look at the group. The theory is that the two largest institutional shareholders, Schroders and PDFM, have about 40 per cent of the equity between them and if they were prepared to sell out, Sedgwick would be an easy fish to land.

Most composite insurers were easier as one broker advised clients to take profits following a bounce last week.

However, Independent rose 9 to 480p after one marketmaker scrambled to pick up stock and adjust a short position in this tightly traded stock.

Conglomerate Tomkins saw volume of 6.8m as talk suggested the shares, dull performers lately, might be in for something of an upswing.

The coupon on the £600m of convertible preference issued to pay for the takeover of Gates Rubber is to be fixed next month, at a level linked to the Tomkins average share price in April. NatWest Securities recommended the shares as a trading buy.

Tomkins has been touching base with brokers and institutions lately, and the news on the Gates integration is said to be favourable. The shares, which have lagged behind the market by 10 per cent this year, added 1¼ at 257½p.

MARKET REPORTERS:
Peter John, Joel Kibazo, Jeffrey Brown, Lisa Wood.

FINANCIAL TIMES EQUITY INDICES

	Mar 25	Mar 22	Mar 21	Mar 20	Mar 19	Yr ago	*High	*Low
Ordinary Share	2755.8	2769.1	2769.3	2756.4	2759.0	2417.4	2807.9	2238.3
Ord. div. yield	3.93	3.92	3.92	3.94	3.94	4.38	4.79	3.76
P/E ratio net	16.34	16.41	16.39	16.32	16.31	16.72	21.20	15.35
P/E ratio nil	16.03	16.09	16.07	16.00	16.00	16.54	22.21	15.17

Ordinary Share index since compilation: high 2788.2 19/01/96; low 49.4 26/06/40 Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2770.9	2760.1	2764.7	2762.8	2761.8	2763.7	2760.1	2762.3	2756.2	2800.7	2755.8

	Mar 25	Mar 22	Mar 21	Mar 20	Mar 19	Yr ago
SEAQ bargains	42,894	40,827	39,543	38,190	41,026	33,734
Equity turnover (£m)†	-	2154.4	2070.6	1899.2	2211.0	1411.6
Equity bargains†	-	47,132	46,346	48,670	43,992	47,334
Shares traded (mil)†	-	788.7	724.6	620.4	731.8	663.4

†Excluding intra-market business and overseas turnover.

	Mar 25	Mar 22	Mar 21	Mar 20	Mar 19	Yr ago	*High	*Low
FT-SE AIM	997.2	998.80	992.30	976.10	977.30	-	1054.62	965.68

*For 1995/96

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	865	Total Highs	129	Total contracts	27,983
Total Falls	488	Total Lows	34	Calls	17,311
Same	1433			Puts	10,672

Mar.25 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3700.0	3676.5	-24.5	3705.0	3675.0	9054	61881
Sep		3692.5	-24.5			0	2340

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		4321.0	-4.0			0	3605

■ FT-SE 100 INDEX OPTION (LIFFE) (*3681) £10 per full index point

	3500 C	3500 P	3550 C	3550 P	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P
Apr	181½	7½	131½	13	90	23	57	40	31	65	13½	98	5	140	1½	188½
May	192½	21½	153	31	118	44	85	63	58½	87	37	118	22½	152½	12½	[illegible]
Jun	212½	41½	174½	50	139½	65	108	83½	81½	107	58½	133½	41	167	28½	[illegible]
Jul	232½	44	195	56½	162	74	131	93	104	116	89½	143	60	173	44½	208
Dec†	291½	86			227½	118			172	162			123½	214		

Calls 2,080 Puts 1,595

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3475 C	3475 P	3525 C	3525 P	3575 C	3575 P	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P	3775 C	3775 P	3825 C	3825 P
Apr	197	6½	152	11½	111	19½	74	32½	44½	53	23½	82	10½	118½	3½	161
May	213½	17½	172½	26	134	37½	99½	52½	70½	73	46½	98½	28½	130	16	167
Jun	234½	36	197	48	162	62	127	76½	95½	94	69	117	47½	144½	32½	179
Sep			237	74			171	105½			118	149½			78½	207
Dec†			282½	94½			222	130			169½	172½			123½	222½

Calls 1,285 Puts 2,052 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	51.7	527	498	BZW Eq (Brmda)	517		-	-	-	-
-	F.P.	0.06	5½	2¾	Clubhaus Wts	2¾	-¼	-	-	-	-
165	F.P.	36.7	183	180	†First Info	181		-	-	-	-
12	F.P.	53.2	16½	14	†Freepages	14½		-	-	-	-
154	F.P.	58.9	188	183	Fulmar	188		Lv4.3	2.7	2.9	16.4
-	F.P.	30.1	143	100	†HCG Intl	123		-	-	-	-
100	F.P.	30.0	100	96	Intl Biotech C	100		-	-	-	-
50	F.P.	22.6	53	52	Life Offices	52		-	-	-	-
-	F.P.	6.6	24½	20	M & G Equity Cap	22¾	-¼	-	-	-	-
-	F.P.	5.17	92	88	M & G Equity Div	90		-	-	-	-
-	F.P.	56.4	45	42	M & G Equity Inc	44		-	-	-	-
145	F.P.	111.9	191	145	Macdonald Hotels	191		RN4.0	2.2	2.6	20.8
125	F.P.	15.1	130	125	†Melrose & Marc	125		-	-	-	-
-	F.P.	0.44	11	10½	New Asia Fund	10¾		-	-	-	-
-	F.P.	0.02	2¾	2¾	New Asia Fund Wt	2¾		-	-	-	-
500	F.P.	176.6	510	99	Perp Inc & Gwth	510	+1	-	-	-	-
-	F.P.	15.5	105	100	†Primary Hth Props	103		-	-	-	-
-	F.P.	23.2	98	93	Samson Value C	93		-	-	-	-
-	F.P.	204.6	256	241	Schroder UK G Uts	254½	-1	-	-	-	-
3	F.P.	4.96	3¾	3¼	Silver Shield	3¼		-	-	-	15.6
120	F.P.	37.8	141	123	Stadium Group	137		Lv3.8	3.1	3.5	11.5
180	F.P.	108.5	188	175	Streamline	175		W7.7	1.2	5.5	13.2
135	F.P.	48.1	183	153	†Thrall Group	183	+2	Rv2.35	3.0	1.6	24.2
155	F.P.	116.4	253	218	Visual Action	253		Rv4.7	2.9	2.3	18.5
-	F.P.	0.31	6	5	Welm Select Wt	5		-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Mar 22	% chg on day	Mar 21	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	2284.96	+1.8	2244.61	1821.42	1.45	-	2520.73	1722.93
■ Regional indices								
Africa (16)	3133.81	+2.8	3049.00	2560.95	2.70	33.99	3553.86	2272.74
Australasia (5)	2609.25	-0.7	2628.76	2078.59	2.43	28.57	2927.34	1986.82
North America (12)	1994.81	+1.8	1960.49	1575.88	0.68	63.24	2186.39	1488.94

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FT - SE Actuaries Share Indices — The UK Series

	Mar 25	Day's chge%	Mar 22	Mar 21	Mar 20	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3681.9	-0.7	3707.0	3698.3	3685.4	3149.8	4.03	2.12	14.61	50.62	1492.08
FT-SE Mid 250	4298.5	-0.2	4304.3	4297.4	4282.2	3419.9	3.43	1.72	21.18	48.42	1711.93
FT-SE Mid 250 ex Inv Trusts	4327.8	-0.2	4337.8	4330.4	4314.6	3427.1	3.53	1.77	19.96	51.75	1727.13
FT-SE-A 350	1854.0	-0.6	1864.6	1860.5	1854.0	1561.4	3.90	2.05	15.68	24.48	1536.12
FT-SE-A 350 Higher Yield	1810.5	-0.8	1824.2	1817.6	1812.0	1573.1	5.11	1.91	12.82	30.86	1248.32
FT-SE-A 350 Lower Yield	1905.0	-0.4	1912.5	1911.0	1903.5	1549.9	2.77	2.29	19.81	18.29	1313.34
FT-SE SmallCap	2085.78	.....	2086.51	2083.56	2080.56	1708.22	3.06	1.81	22.56	11.80	1695.97
FT-SE SmallCap ex Inv Trusts	2072.06	-0.1	2073.78	2070.52	2067.63	1684.81	3.27	1.89	20.17	11.60	1693.93
FT-SE-A ALL-SHARE	1833.61	-0.5	1843.51	1839.60	1833.48	1540.81	3.83	2.03	16.06	23.13	1542.93

■ FT-SE Actuaries All-Share

	Mar 25	Day's chge%	Mar 22	Mar 21	Mar 20	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3332.74	.....	3331.78	3336.61	3357.27	2683.63	3.80	1.74	18.44	27.04	1414.10
12 Extractive Industries(6)	4193.17	-0.7	4221.20	4229.37	4232.00	3592.92	3.79	2.39	13.78	100.39	1231.39
15 Oil, Integrated(3)	3371.06	+0.3	3361.83	3366.82	3392.41	2672.75	4.09	1.63	18.68	16.24	1461.40
16 Oil Exploration & Prod(15)	2361.73	-1.0	2385.47	2386.02	2393.63	1965.70	2.19	1.52	37.53	23.68	1415.90
20 GEN INDUSTRIALS(276)	2086.37	-0.6	2098.92	2100.32	2095.59	1847.43	4.03	1.87	16.59	19.78	1131.01
21 Building & Construction(34)	1113.13	-0.8	1121.57	1128.39	1130.41	952.42	3.60	1.99	17.44	7.73	923.49
22 Building Matls & Merchs(29)	1845.14	-1.0	1863.89	1872.88	1880.25	1754.70	4.06	1.87	15.60	4.17	917.78
23 Chemicals(24)	2567.40	-0.6	2583.77	2575.98	2588.25	2226.87	3.88	1.99	16.16	28.58	1209.17
24 Diversified Industrials(21)	1773.87	-1.2	1795.55	1795.18	1798.40	1818.72	5.71	1.50	14.55	37.04	990.24
25 Electronic & Elect Equip(38)	2382.72	+0.2	2378.11	2380.44	2358.48	1941.05	3.03	1.71	24.08	6.19	1225.67
26 Engineering(70)	2404.51	-0.3	2412.11	2413.38	2396.40	1787.99	3.18	2.43	16.16	14.17	1447.97
27 Engineering, Vehicles(13)	2897.72	+0.5	2882.75	2877.43	2835.39	2164.55	3.65	1.80	19.01	24.93	1490.81
28 Paper, Pckg & Printing(28)	2726.40	-1.1	2756.90	2759.13	2739.26	2751.30	3.74	1.98	16.87	31.72	1131.44
29 Textiles & Apparel(19)	1472.19	+0.1	1470.14	1469.92	1474.96	1499.03	4.77	1.64	16.01	7.42	887.37
30 CONSUMER GOODS(81)	3475.45	-0.7	3498.22	3489.30	3452.28	2959.23	4.04	1.81	17.10	53.82	1260.72
32 Alcoholic Beverages(9)	2791.30	-0.6	2808.22	2789.92	2796.94	2683.28	4.44	1.58	17.86	26.48	997.64
33 Food Producers(23)	2530.67	-1.1	2559.51	2568.95	2563.91	2400.94	4.24	1.75	16.87	20.39	1131.36
34 Household Goods(15)	2579.19	-1.0	2605.98	2601.06	2591.55	2490.10	3.84	2.41	13.51	47.93	988.52
36 Health Care(20)	1937.93	-0.3	1943.16	1936.41	1928.24	1668.99	2.70	1.81	25.58	5.97	1167.10
37 Pharmaceuticals(13)	4883.50	-0.4	4903.05	4900.31	4799.29	3752.11	3.45	1.82	18.91	81.77	1658.71
38 Tobacco(1)	4210.03	-0.9	4248.15	4180.38	4129.55	3703.10	6.04	2.03	10.18	156.18	1057.53
40 SERVICES(253)	2366.28	-0.5	2377.89	2373.48	2369.30	1912.06	2.94	2.10	20.26	20.12	1223.18
41 Distributors(32)	2668.15	+0.9	2644.43	2626.10	2618.47	2262.65	3.18	1.96	20.02	14.38	976.39
42 Leisure & Hotels(23)	2947.28	-1.0	2977.70	2973.17	2984.98	2135.34	2.84	2.15	20.50	137.98	1585.27
43 Media(46)	3923.12	-0.8	3953.77	3932.27	3920.25	3817.86	2.21	2.08	27.52	34.61	1416.88
44 Retailers, Food(15)	1875.51	-0.9	1892.48	1905.82	1910.25	1837.86	3.90	2.40	13.35	3.01	1176.22
45 Retailers, General(43)	1962.13	-0.4	1970.02	1963.19	1959.88	1620.36	3.04	2.21	18.61	5.78	1109.43
47 Breweries, Pubs & Rest.(24)	2956.47	-0.3	2964.30	2972.48	2968.37	2195.32	3.34	2.08	17.96	15.93	1409.84
48 Support Services(49)	2156.61	+0.1	2154.51	2141.72	2127.53	1483.78	2.27	2.52	21.86	5.98	1361.02
49 Transport(21)	2393.56	-0.2	2399.61	2402.96	2392.77	2208.76	3.63	1.41	24.46	8.35	986.52
60 UTILITIES(33)	2448.08	-0.3	2454.21	2445.47	2444.52	2259.58	5.07	2.06	11.95	35.13	1037.99
62 Electricity(12)	2728.63	-0.3	2737.62	2728.93	2732.80	2100.15	5.09	2.60	9.46	137.11	1336.09
64 Gas Distribution(2)	1544.93	.....	1544.93	1543.09	1533.49	1929.46	7.76	1.37	11.78	0.00	775.11
66 Telecommunications(7)	2002.63	-0.5	2012.99	2001.22	2006.50	2005.47	4.22	1.76	16.89	0.15	906.51
68 Water(12)	2178.25	.....	2178.95	2180.70	2162.78	1757.20	5.60	2.59	8.60	3.61	1181.24
69 NON-FINANCIALS(667)	1952.14	-0.5	1961.29	1958.85	1953.72	1651.19	3.84	1.93	16.90	21.43	1472.20
70 FINANCIALS(108)	2825.58	-1.0	2852.70	2834.16	2815.08	2232.20	4.17	2.58	11.63	62.04	1219.14
71 Banks, Retail(8)	3943.08	-0.8	3976.34	3933.39	3899.35	2984.76	3.93	2.83	11.28	104.55	1298.73
72 Banks, Merchant(6)	3427.96	-1.0	3462.06	3480.91	3499.74	3079.90	2.88	2.38	18.26	30.82	1084.25
73 Insurance(24)	1376.10	-1.0	1390.32	1391.40	1378.82	1251.04	5.68	3.14	7.01	31.12	1031.25
74 Life Assurance(6)	3454.72	-3.1	3565.87	3548.03	3539.86	2507.14	4.29	2.10	13.86	86.05	1442.24
77 Other Financial(23)	2516.47	+0.1	2512.74	2513.99	2507.98	1909.49	3.67	1.88	18.10	19.90	1422.08
79 Property(41)	1454.78	-0.1	1455.63	1456.30	1451.21	1370.24	4.32	1.30	22.26	6.70	886.33
80 INVESTMENT TRUSTS(126)	3111.04	+0.2	3105.24	3103.22	3094.45	2619.87	2.19	1.06	53.60	14.09	1081.49
89 FT-SE-A ALL-SHARE(901)	1833.81	-0.5	1843.51	1839.60	1833.48	1540.81	3.83	2.03	16.06	23.13	1542.93
FT-SE-A Fledgling	1170.04	+0.1	1169.31	1167.39	1164.68	956.41	2.93	2.18	19.57	6.77	1215.90
FT-SE-A Fledgling ex Inv Trusts	1174.48	.....	1174.22	1172.23	1169.66	953.63	3.18	2.36	16.66	7.18	1220.01

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3704.9	3690.0	3696.5	3693.8	3693.7	3693.5	3689.4	3693.4	3681.4	3705.3	3681.4
FT-SE Mid 250	4304.4	4301.4	4299.1	4299.5	4298.6	4296.1	4295.7	4296.8	4296.1	4304.4	4295.4
FT-SE-A 350	1863.7	1857.6	1858.9	1858.9	1858.6	1858.5	1858.8	1858.5	1853.7	1863.9	1853.7

Time of FT-SE 100 Day's high: 8:35 AM Day's low: 4:10 PM. FT-SE 100 1996 High: 3781.3 (2/2/96) Low: 2954.2 (1/23/95).

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1106.7	1105.1	1106.6	1106.3	1106.3	1105.3	1104.7	1103.6	1101.6	1101.6	1112.9	-11.3
Pharmaceuticls	4840.0	4837.9	4834.9	4830.8	4838.1	4842.5	4837.8	4841.2	4828.6	4830.5	4847.8	-17.3
Water	2176.0	2179.3	2181.3	2179.3	2173.4	2170.1	2171.3	2171.4	2170.6	2171.3	2172.0	-0.7
Banks, Retail	4027.4	4004.9	4024.4	4018.1	4011.8	4005.7	4000.5	4011.5	3990.3	3993.4	4027.1	-33.7

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues.
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TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	432	423	[illegible]
ASDA Group†	12,000	104¾	+1¼
Abbey National†	2,400	567	-8
Albert Fisher	617	47	[illegible]
Allied Domecq†	1,800	497	-11
Anglian Water	602	597	-3
Argos†	469	636	[illegible]
Argyll Group†	1,600	309	[illegible]
Arjo Wiggins	238	197	[illegible]
Assoc. Brit. Foods†	711	388	[illegible]
Assoc. Brit. Ports	637	281	[illegible]
BAA†	1,300	537	[illegible]
BAT Inds.†	4,500	497	[illegible]
BET	4,100	203	[illegible]
BICC	940	335	[illegible]
BOC†	748	865	[illegible]
BP†	7,700	556	[illegible]
BPB Inds.	1,500	314	[illegible]
BSkyB†	2,800	420	[illegible]
BT†	5,800	335	[illegible]
BTR†	8,600	319xd	[illegible]
Bank of Scotland†	1,100	249½	[illegible]
Barclays†	3,700	732	[illegible]
Bass†	1,700	747	[illegible]
Blue Circle†	1,800	332	[illegible]
Booker	233	371	[illegible]
Boots†	587	600	[illegible]
Britannic	561	786	[illegible]
Brit. Aerospace†	419	864	[illegible]
British Airways†	1,300	531	[illegible]
British Gas†	7,400	231½	[illegible]
British Land	1,300	392	[illegible]
British Steel†	4,800	168	[illegible]
Bunzl	1,100	214xd	[illegible]
Burmah Castrol†	114	1047	[illegible]
Burton†	7,100	143	[illegible]
Cable & Wire†	3,000	487	[illegible]
Cadbury Schweppes†	2,500	518	[illegible]
Caradon	1,900	207	[illegible]
Carlton Comms.†	2,400	439	[illegible]
Coats Viyella	3,700	199	[illegible]
Comm. Union†	730	582	[illegible]
Compass	1,000	494	[illegible]
Cookson†	2,400	311xd	[illegible]
Courtaulds†	121	440	[illegible]
Dalgety	3,500	424	[illegible]
De La Rue	1,100	713	[illegible]
Dixons†	1,200	459	[illegible]
East Midland Elec.	878	615	[illegible]
Electrocomps	879	348	[illegible]
Eng China Clays	684	299xd	[illegible]
Enterprise Oil†	1,400	421xd	[illegible]
Eurotunnel Units	1,000	68	[illegible]
FKI	2,200	172	[illegible]
Foreign & Col. I.T.†	985	157½	[illegible]
Forte	32	349	[illegible]
Gen. Accident†	368	635	[illegible]
General Elect.†	4,100	369	[illegible]
Glaxo Wellcome†	4,900	812	[illegible]
Glynwed	732	362	[illegible]
Granada†	2,500	718	[illegible]
Grand Met.†	1,700	430	[illegible]
GUS†	948	675	[illegible]
Greenalls†	269	567	[illegible]
GRE†	8,800	231	[illegible]
GKN†	1,400	921	[illegible]
Guinness†	5,700	488	[illegible]
HSBC (75p shs)†	2,200	1010xd	[illegible]
Hammerson	349	351xd	[illegible]
Hanson†	6,500	189	[illegible]
Harrisons Crosfield	8,100	154	[illegible]
Hays	2,300	368	[illegible]
Hillsdown	8,100	182	[illegible]
Hyder	628	740	[illegible]
IMI	281	381	[illegible]
ICI†	1,100	834	[illegible]
Inchcape	6,500	272	[illegible]
Johnson Matthey	392	572	[illegible]
Kingfisher†	3,200	546	[illegible]
Kwik Save	62	471	[illegible]
Ladbroke†	7,100	193	[illegible]
Land Securities†	429	613	[illegible]
Laporte	505	725	[illegible]
Legal & General†	2,800	668xd	[illegible]
Lloyds Abbey	181	522	[illegible]
Lloyds TSB†	6,000	311½	[illegible]
LASMO†	1,600	184	[illegible]
London Elect	687	729	[illegible]
Lonrho	920	211	[illegible]
Lucas	3,600	211	[illegible]
MEPC	1,300	403	[illegible]
MFI	2,300	171	[illegible]
Marks & Spencer†	3,300	423½	[illegible]
Mercury Asset Man	339	844	[illegible]
Midlands Elect	447	383	[illegible]
Morrison (Wm.)	471	152	[illegible]
NFC	601	157½	[illegible]
NatWest Bank†	2,800	647	[illegible]
National Grid†	7,100	192½	[illegible]
National Power†	2,300	480	[illegible]
Next	1,600	487	[illegible]
Northern Elec.	338	634	[illegible]
Northern Foods	8,200	183	[illegible]
Pearson†	720	661xd	[illegible]
P & O†	2,400	[illegible]	[illegible]
Pilkington†	1,600	[illegible]	[illegible]
PowerGen†	529	[illegible]	[illegible]
Prudential†	2,600	426xd	[illegible]
REXAM†	1,200	385xd	[illegible]
RMC†	814	994	[illegible]
RTZ†	1,800	933	[illegible]
Racal	103	326	[illegible]
Rank Org.†	2,500	486xd	[illegible]
Reckitt & Colman†	380	673xd	[illegible]
Redland†	592	395	[illegible]
Reed Intl.†	853	1099	[illegible]
Rentokil†	1,800	369	[illegible]
Reuters†	2,300	692	[illegible]
Rolls Royce†	3,900	219	[illegible]
Ryl Bk Scotland†	3,400	516	[illegible]
Royal Insurance†	560	355	[illegible]
Sainsbury†	4,000	370	[illegible]
Schroders†	34	1218xd	[illegible]
Scottish & New.†	1,000	646	[illegible]
Scot. Hydro-Elect.	998	329½	[illegible]
Scottish Power†	1,600	350xd	[illegible]
Sears	1,300	96½	[illegible]
Sedgwick	2,300	132	[illegible]
Seeboard	8	532	[illegible]
Severn Trent†	289	605	[illegible]
Shell Transport†	4,900	858	[illegible]
Siebe†	659	808	[illegible]
Slough Ests	145	234	[illegible]
Smith (W.H.)	2,100	464	[illegible]
Smith & Nephew†	1,500	182½	[illegible]
SmKl Beecham†	2,800	682	[illegible]
SmKl Beecham Uts.†	1,500	624	[illegible]
Smiths Inds.†	284	682	[illegible]
Southern Elect†	362	853	[illegible]
South Wales Elect.	3	880	[illegible]
South West Water	51	676	[illegible]
Southern Water	97	758	[illegible]
Standard Chartd.†	1,100	612	[illegible]
Storehouse	6,500	263	[illegible]
Sun Alliance†	1,700	367	[illegible]
T&N	1,700	184	[illegible]
TI Group†	1,500	473xd	[illegible]
Tarmac	1,600	121	[illegible]
Tate & Lyle†	2,700	475	[illegible]
Taylor Woodrow	1,200	138	[illegible]
TeleWest	2,100	145	[illegible]
Tesco†	2,300	271½	[illegible]
Thames Water†	1,300	581	[illegible]
Thorn EMI†	1,100	1683	[illegible]
Tomkins†	7,800	257½	[illegible]
Trafalgar House	823	[illegible]	[illegible]
Unigate	6,100	407	[illegible]
Unilever†	1,100	1294	[illegible]
United Biscuits	499	238xd	[illegible]
Utd. News & Media	183	622	[illegible]
United Utilities†	859	584	[illegible]
Vodafone†	1,500	250	[illegible]
WPP	584	196	[illegible]
Wessex Water	2,000	330	[illegible]
Whitbread†	1,400	691	[illegible]
Williams Hldgs.†	2,700	320	[illegible]
Willis Corroon	983	162	[illegible]
Wimpey	532	138xd	[illegible]
Wolseley†	2,200	450	[illegible]
Yorkshire Elect	186	[illegible]	[illegible]
Yorkshire Water	443	[illegible]	[illegible]
Zeneca†	3,700	1351	[illegible]

Based on trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are rounded. Source: FT Extel.

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WORLD STOCK MARKETS

EUROPE

US INDICES

Dow Jones	Mar 22	Mar 21	Mar 20	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Industrials	5636.64	5626.88	5655.42	5683.60 (18/3/96)	3832.08 (30/1/95)	5683.60 (18/3/96)	41.22 (2/7/32)
Home Bonds	103.68	103.68	103.68	106.08 (14/2/96)	93.63 (3/1/95)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2197.67	2188.90	2194.50	2215.21 (19/3/96)	1473.19 (3/1/95)	2215.21 (19/3/96)	12.32 (8/7/32)
Utilities	214.50	214.02	214.08	234.00 (12/2/96)	183.03 (3/1/95)	258.48 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5681.07 (5686.25) Low 5589.67 (5590.03) (Theoretical●)
Day's high 5649.28 (5668.43) Low 5620.38 (5613.88) (Actual●)

Standard and Poors	Mar 22	Mar 21	Mar 20	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Composite‡	650.62	649.19	649.98	661.45 (12/2/96)	459.11 (3/1/95)	661.45 (12/2/96)	4.40 (1/6/32)
Industrials●	768.66	767.19	767.84	776.23 (22/2/96)	546.28 (3/1/95)	776.23 (22/2/96)	3.62 (21/6/32)
Financial	66.52	66.06	66.49	68.56 (5/3/96)	41.64 (3/1/95)	68.56 (5/3/96)	8.64 (1/10/74)
NYSE Comp	348.77	348.06	348.20	361.70 (12/2/96)	250.73 (3/1/95)	361.70 (12/2/96)	4.46 (25/4/42)
Amex Mkt Val	569.35	568.32	567.27	570.31 (7/3/96)	433.12 (6/1/95)	570.31 (7/3/96)	29.31 (9/12/72)
NASDAQ Cmp	1102.22	1099.79	1101.82	1117.79 (23/2/96)	743.58 (3/1/95)	1117.79 (23/2/96)	54.87 (31/10/72)

■ RATIOS

	Mar 22	Mar 15	Mar 8	Year ago
Dow Jones Ind. Div. Yield	2.13	2.15	2.18	2.65
	Mar 20	Mar 13	Mar 6	Year ago
S & P Ind. Div. yield	1.87	1.85	1.87	2.36
S & P Ind. P/E ratio	21.26	21.01	21.05	17.32

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Glaxo Wlcm	8,115,600	24⅝	-¼
First USA Pay	4,843,600	30¾	-----
Telefonos	3,740,400	32⅞	+⅛
Philip Morris	3,616,100	86⅝	-⅜
Merck	3,543,000	63¾	-1¾
Bay Networks	3,360,000	33⅞	-⅛
Zeneca	3,106,500	62½	-----
Amer T & T	2,987,900	61¼	-⅛
Micron Tech	2,859,100	31¾	-⅛
K Mart	2,740,100	9⅝	-----

■ TRADING ACTIVITY

● Volume (million)

	Mar 22	Mar 21	Mar 20
New York SE	329.391	367.158	408.986
Amex	19.835	20.282	24.296
NASDAQ	494.601	515.809	548.158
NYSE			
Issues Traded	3,113	3,113	3,089
Rises	1,305	1,216	1,150
Falls	932	1,109	1,158
Unchanged	876	788	781
New Highs	83	93	128
New Lows	15	12	11

■ S&P 500

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	656.40	660.25	+3.90	663.50	656.35	47,364	179,716
Sep	667.00	664.90	+2.90	669.50	664.70	66	4,550

■ Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	20960.0	20980.0	+200.0	21020.0	20920.0	26,444	254,198
Sep	20920.0	20930.0	+190.0	20930.0	20920.0	311	12,469

Open interest figures for previous day.

● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ● The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day.

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NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 7 1995. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

■ TOKYO - MOST ACTIVE STOCKS: Monday, March 25, 1996

	Stocks Traded	Closing Prices	Change on day
Toshiba Corp	17.8m	780	
Nissan Motor	16.7m	793	-7
Yamaichi Secs	16.1m	786	
Toyota Motor	11.7m	2370	+40
Komatsu	10.7m	944	+6
Shinko Electric	7.9m	963	+100
Dai Nippon Print	6.5m	1910	+40
Nippon Stl Corp	6.4m	357	+5
NKK Corp	5.0m	302	
Japan Energy	4.8m	396	+3

4 pm close March 25

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995/96 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22⅛	12⅛	AAR	0.48	2.4	21	734	20	19½	19⅝	-⅛
46¼	35	AMP	1.00	2.4	21	4193	43½	42⅛	42⅛	-1⅛
93⅛	53⅛	AMR			36	7103	92⅜	90⅜	91⅝	+⅞
50½	36⅛	ASA	2.00	4.3	31	2039	47	45⅛	47	+1⅞
44¾	30¾	Abbott	0.96	2.4	19	10521	41¼	40⅜	40⅝	-⅛
18⅞	12	Abitibi Pr	0.40	2.9	7	1542	13⅞	13⅝	13¾	
32	21	ABM Ind	0.70	2.2	16	38	31⅞	31¼	31¼	-⅛
17½	13⅛	Acptcain			52	589	14⅞	14⅝	14⅝	-¼
50⅜	21⅞	ACE Ltd	0.56	1.2	10	918	45	44½	45	+⅛
9⅞	8⅛	ACM Gvt In	0.90	9.2	8	460	9¾	9½	9¾	+⅛
7⅞	6½	ACM GvOpp	0.66	8.9		400	7⅜	7¼	7⅜	
7½	5¾	ACM Gvt Sp	0.75	10.9		294	7	6⅞	6⅞	
9⅛	7¼	ACM Gvt Se	0.90	10.3		468	8⅞	8⅝	8¾	
9½	7⅝	ACM Man	0.90	9.6		359	9⅜	9¼	9⅜	+⅛
31¼	10¼	AcmeClv	0.52	1.7	7	1004	31	30¾	30⅞	
38¾	6⅛	Acme Elect			58	131	7¼	7	7	+¼
34½	23¼	Acordia	0.72	2.3	16	9	31⅛	31	31	
16¾	10⅛	Acuson			48	789	15⅝	14¾	15½	+¾
19⅝	15⅝	Adams Expr	0.36	1.9	0	70	19⅛	19	19	
38⅞	16⅛	AdvMic			5	4530	17¼	16¾	17	+⅛
10¼	5	Advest Grp	0.16	1.6	9	11	9¾	9⅝	9¾	+⅛
27½	10½	Advo Inc	0.10	0.9	11	606	10⅞	10⅝	10¾	+⅛
46¼	24.80	Aegon	1.28	2.9	17	1015	45	44½	44¾	+⅝
5⅞	3⅛	AerfIn			9	292	4⅞	4¾	4⅞	+⅛
78¼	46¾	AetnaL	2.76	3.6	36	1056	76⅜	75¼	76¼	+⅛
33.17	21.37	Aflac	0.35	1.1	13	995	32⅝	31⅞	32	-⅜
20⅞	15	AGL Res	1.06	5.8	17	554	18⅝	18¼	18¼	-¼
28⅛	16	Ahmnsn	0.88	3.7	7	2595	24½	23⅞	24	
59½	43⅞	AirPrC	1.04	1.8	17	1855	56⅝	56¼	56½	
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4 pm close March 25

NYSE COMPOSITE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close March 25

AMEX COMPOSITE PRICES

4 pm close March 25

Price data supplied by Telekurs

FT Free Annual Reports Service

★ FINANCIAL TIMES Tuesday March 26 1996

AMERICA

Tech stocks fall as bonds support Dow

Wall Street

US shares were mixed in mid-day trading yesterday as strength in the bond market gave support to broader indices, while a sell-off in the technology sector led to losses on the Nasdaq composite, *writes Lisa Bransten in New York.*

Blue chip shares in the Dow Jones Industrial Average jumped 42 points in the first half-hour of trading before spending the rest of the morning settling back nearer to Friday's closing levels. By 1 pm the Dow was up 15.54 at 5,652.17.

The Standard & Poor's 500 had gained 1.33 at 651.95, while the American Stock Exchange composite eased 0.20 to 569.15. New York SE volume was 196m shares.

Broader indices got some support from gains on the US Treasury market, where the yield on the benchmark 30-year bond fell to its lowest level since the market was jolted two weeks ago by surprisingly strong employment figures.

Technology shares, however, fell in morning trading, causing the Nasdaq – which is about 40 per cent technology issues – to give up 7.45 at 1,094.77. The Pacific Stock Exchange technology index shed 1.1 per cent.

IBM, which is traded on the NYSE, posted the biggest decline of the 30 companies in the Dow. In early afternoon trading, its shares were $2¾ cheaper at $111⅞. Hewlett-Packard shed $1⅝ to $95⅞ and Compaq Computer was $1⅛ weaker at $36⅞.

On the Nasdaq, Dell Computer lost $1 at $31⅝. Apple Computer was $1⅛ lower at $24⅜ and Gateway 2000 dipped $⅞ to $25⅝.

C-Cube Microsystems dropped $9 or 18 per cent to $45⅞ after IBM presented a line of audio-video encoding systems that will compete with C-Cube's products. Micros Systems slid $25¼ or 52 per cent to $24½ after the manufacturer of retailing computer systems said it expected third-quarter earnings this year to be lower than those of a year ago.

Elsewhere, General Motors added $1¼ at $54⅛ as the biggest of the Big Three US motor companies began to restart factories that had been shut by a 17-day strike in a Dayton, Ohio, parts plant.

Merck receded $1⅝ to $62⅞ after the company warned that its new drug for the treatment of osteoporosis, Fosamax, had caused stomach irritation in some patients.

Canada

Toronto was supported at mid-session by mutual fund cash flowing into the market ahead of the end of the financial quarter.

The TSE 300 index had gained 11.37 by noon at 4,964.00 in volume of 35.6m shares.

The banking sector was helped higher by stronger bond markets and an improving interest rate outlook after Friday's announcements from the major banks that they were cutting their prime lending rates to 6.75 per cent.

Toronto-Dominion Bank rose C$⅛ to C$23⅞, Canadian Imperial Bank of Commerce added C$⅛ at C$41⅛ and Bank of Montreal firmed C$⅛ to C$31⅛.

Mexico takes profits

Following recent strength, MEXICO CITY felt that it was time to book some profits in midsession trading. The IPC index, which had gained 7 per cent in dollar terms last week, was off 35.93 or 1.2 per cent at 3,010.82 by 1 pm.

However, there was also a worry in some quarters, dealers remarked, that inflation might rise in the short term following price rises in tortillas and an increase in the minimum wage, both of which were announced on Friday.

BUENOS AIRES built on Friday's 2 per cent gain, with a midsession rise in the Merval index of 10.62 or 2.1 per cent at 528.11. Analysts suggested that sentiment had been lifted by the start of the annual meeting of the IADB in the city.

SAO PAULO was moderately firmer at midsession, with the Bovespa index 425.21 or 0.8 per cent higher at 50,937.

EUROPE

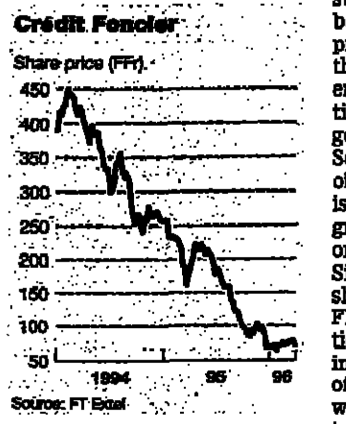
Philips, down 11%, gives Amsterdam a surprise

Philips surprised AMSTERDAM by announcing that it expected to report a first-quarter result "substantially" below the previous year's figure. It was known that the consumer electronics market was weak in the US and in Europe, but the surprise was compounded by the fact that the company's results for this period were not due until the end of next month. The stock plummeted Fl 7.20 or 11 per cent to Fl 59 in high volume of 13m shares.

Mr Dennis Exton at Nikko Europe said that a weak first quarter had been on the cards, given the extensive publicity that had been given over the past few months to the downturn in the semiconductor industry. The problem facing Philips now, he added, was that, in spite of the restructuring measures that had been implemented, the company was still not achieving the economies of scale that some of its Japanese competitors, for instance, were managing.

In addition, Philips was still incurring substantial start-up and operating costs from new ventures, just at a time when global demand for consumer electronics and semiconductors in general appeared to be weakening. He felt that one option for Philips was to "buy growth" through the acquisition of companies in the media and media services sector.

Crédit Foncier



Source: FT Extel

The AEX index slipped 0.72 to 527.65, after a session's high of 530.89.

PARIS galloped through the 2,000 level on the first day of the new account, encouraged by the return of foreign investors. The CAC-40 index rose 29.48 to 2,003.83.

Crédit Foncier de France, the specialist mortgage bank, suffered a heavy loss, closing FFr5.20 or 6.6 per cent down at FFr72.80. Analysts said reports circulating in some domestic newspapers that the financial institution might announce very large provisions for 1995 in an effort to clean up its balance sheet were not new.

CFF, in common with many other banks and insurers, had suffered in recent years because of exposure to the problems which had affected the intensely competitive property market, they said. In addition, CFF suffered after the government confirmed last September, following months of speculation, that it was abolishing a subsidised loan programme, for which CFF was one of only two providers. Since that time the group's shares had fallen from the FFr300 level, with an additional disincentive to investors in the blocking, last November, of a proposed merger which would have provided a recapitalisation of some FFr1bn. CFF, which had no comment on yesterday's reports, said it was due to publish its 1995 results on April 4.

Eurotunnel was another casualty, the stock tumbling 40 centimes or 7 per cent to FFr5.30 as investors reacted to reports that the group might issue bonds to refinance its substantial debt load.

FRANKFURT registered yet another all-time high but it did so with limited conviction, turnover falling from DM9.8bn to DM7.3bn as the Dax index recovered last Friday's post-bourse losses and closed 34.96 higher at an Ibis-indicated 2,514.80.

Sentiment was lifted by the success of the ruling CDU/FDP coalition in the weekend *länder* elections, which firmed bond markets, and financials ahead of a string of bank results. Banking shares did well on the day, Commerzbank rising DM4.90 to DM337.40 on a 109 per cent jump in 1995 operating profits; but insurers did better, Allianz closing DM57 higher at DM2,788, and Munich Re gaining DM70 at DM3,140 on the more direct link perceived between bunds, and insurers' asset values.

SAP prefs were the share of the day, rising DM13.60 or 6.7 per cent to DM216.75. Mr Lothar Lubinetzki at Enskilda Securities said the software group had underperformed since it was co-opted into the Dax 30 last September. Other winners included Linde, the fork lift specialist, up another DM26 to DM931 following good results last week; Hoechst and BASF on the chemicals restructuring story; and Adidas, the sportswear group, DM3 higher at DM107 as it extended the upgrading that was interrupted, temporarily, by stories of delivery difficulties last week.

MADRID, too, had a better day for share prices than it did for volume, the general index rising 3.91, or 1.2 per cent, to 340.11 in relatively light turnover of nearly Pta32bn.

There was a suggestion that professionals wanted prices to rise ahead of the end of the quarter on Friday; but that investors did not actually want to buy at these levels.

ZURICH climbed to another peak, with further demand for the pharmaceuticals sector taking the SMI index 29.3 ahead to 3,677.0.

Roche certificates gained SFr80 at SFr9,805, Ciba added SFr11 at SFr1,495 and Sandoz rose SFr13 to SFr1,403.

Expectations that investors might soon decide to switch out of sharply higher pharmaceuticals helped the insurance sector, which was regarded as having more upside potential. The favourable interest rate climate also benefited insurers more than banks, Swiss Re jumping SFr28 to SFr1,289 after last week's underperformance.

Alusuisse, up SFr7 to SFr1,002, pierced the psychologically important SFr1,000 level in spite of last week's James Capel sell recommendation. Swissair continued its sharp ascent, rising SFr12 to SFr1,345 after last week's 19.2 per cent surge.

Elektrowatt moved forward SFr8 to SFr437 ahead of a news conference late in the day.

MILAN was weak as political uncertainties again kept investors away and the Comit index lost 4.11 to 585.29.

Telecommunications were in focus. Telecom Italia fell L59 to L2,414 after its presentations to analysts in Milan on Friday and London yesterday. Stet was L19 weaker at L4,456 but Tim jumped L39 to L2,783 on news of increased investment in its GSM activities.

However, Mr William Laurent at Robert Fleming downgraded Tim, citing growing competition from the Olivetti-controlled Omnitel, the shares' performance since flotation last July and the company's need to sign up increasing numbers of new subscribers simply to hold revenues flat.

Written and edited by William Cochrane, Michael Morgan and John Pitt

FT-SE Actuaries Share Indices

Mar 25								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1622.34	1621.21	1620.95	1621.17	1621.24	1619.80	1622.88	1622.07
FT-SE Eurotrack 200	1679.66	1678.15	1678.86	1680.11	1680.77	1678.57	1680.63	1679.68

	Mar 22	Mar 21	Mar 20	Mar 19	Mar 18
FT-SE Eurotrack 100	1612.99	1610.28	1608.30	1606.88	1592.22
FT-SE Eurotrack 200	1665.18	1679.05	1677.80	1678.03	1661.06

Base value 1000 (26/10/90). High/day: 100 - 1622.84; 200 - 1683.89 Low/day: 100 - 1619.35 200 - 1677.85. † Partial.

ASIA PACIFIC

Nikkei gains 1%, banks rally on housing loan hopes

Tokyo

Hopes of an imminent resolution of the government's housing loan liquidation plan revived the banking sector, and the Nikkei average rose by a percentage point, *writes Emiko Terazono in Tokyo.*

The ruling coalition parties won an upper house by-election in central Japan over the weekend. This prompted expectations that the impasse over the budget bill negotiations would soon end, and the 225 index gained 214.52 at 20,915.44.

The index moved between 20,745.91 and 20,946.53. Foreign investors bought banks and cyclicals. The Topix index of all first section stocks rose 13.63 to 1,598.54 and the Nikkei 300 by 2.49 to 299.70.

Volume was 382m shares, against 415.6m, broker activity slowing down on the last trading day for March settlements. Banks, looking to realise profits, sold and bought back shares. Advances led declines by 734 to 347, with 141 issues unchanged.

In London the ISE/Nikkei 50 index eased 0.91 to 1,396.79.

Banks which have stakes in housing loan companies were especially popular. Merrill Lynch bought Sumitomo Bank, which rose Y50 to Y2,180; Mitsubishi Bank, bought by Lehman Brothers, climbed Y80 to Y2,240. Analysts expected the negative effects of the *jusen* debacle on the sector to ease and saw such factors as interest rates having a greater influence on bank shares in future.

Overseas investors bought carmakers: Toyota rose Y40 to Y2,370 and Honda gained Y20 at Y2,350. Technology issues were mixed in spite of the yen's fall, with Fujitsu declining Y3 to Y969 and Hitachi adding Y11 at Y1,010.

SS Pharmaceutical, a drugs maker specialising in proprietary brands, surged Y56 to Y726 on reports that Boehringer Ingelheim, of Germany, had purchased a 9.2 per cent stake from Cosmo Credit Union, a small financial institution which collapsed last August. After the market closed, SS Pharmaceutical said it would write off Y1bn in losses related to Cosmo, although the losses would be covered by stock sales.

Higher crude oil prices lifted oil refiners. Nippon Oil advanced Y14 to Y663 and Mitsubishi Oil Y18 to Y890.

In Osaka, the OSE average rose 173.25 to 21,920.56 in volume of 42.5m shares.

Roundup

A fear of new taxes in the 1996-97 Pakistan budget helped drive KARACHI down by 2.1 per cent; there were also worries that the flotation of PTCL, the telecom utility, might be delayed.

The 100-share index fell 32.71 to 1,488.56, with PTCL dropping Rs2.20 to Rs30.90.

BANGKOK retreated as rumours circulated about the future of the central bank governor. The SET index lost 5.62 at 1,304.08 in Bt4.1bn turnover.

Brokers said the market's fall came during the afternoon as stories began to emerge that the bank governor had been dismissed. The story was described as "groundless" by the bank.

TAIPEI appeared to find little satisfaction in the weekend's presidential election which resulted in a victory for the incumbent president, Lee Teng-hui. The weighted index ended just 0.96 up at 5,067.51, off an opening high of 5,138.01, in turnover of T$46.5bn.

Shipping shares attracted interest on expectations that Beijing and Taipei were likely to begin discussing direct transportation links after the election.

Yang Ming Marine gained 30 cents at T$32.6 and U-Ming Marine rose 60 cents to T$39.3.

HONG KONG detected signs of an easing in China-Taiwan tensions, and the Hang Seng index closed 85.03 higher at 11,111.76, after 11,165.07, in turnover up from HK$4.39bn to HK$4.99bn. Among key index stocks, HSBC surged HK$2.20 to HK$118.50 after going ex-dividend. Cheung Kong rose 50 cents to HK$55 and HK Telecom 15 cents to HK$15.10.

KUALA LUMPUR looked for a friendly annual report from Bank Negara tomorrow and this, along with heavy buying in Petronas Gas shares, pushed the KLSE composite index to a new closing high for the year of 1,160.83, up 10.18.

Petronas Gas climbed to a peak of M$12.20 before ending at M$11.60, up 60 cents, on the market's second heaviest volume of 6.2m shares.

SINGAPORE property related stocks continued to see good interest, Orchard Parade climbing 27 cents to S$5.25 on the contention that, like a number of stocks in the sector, it was trading at a discount to asset value. The Straits Times Industrial index finished 6.74 ahead at 2,405.47.

SYDNEY saw BHP and CRA dominating turnover as the All Ordinaries index moved up 10.4 to 2,255.4. Overall volume was 216.3m shares worth A$605m, with rises leading falls by 457 to 401.

BHP was off 6 cents at A$18.02 after an intra-day low of A$17.78 following the announcement of lower than expected 1995 profits. CRA fell 12 cents to A$19.15.

WELLINGTON was dragged down by a number of key issues going ex-dividend. The NZSE-40 index shed 19.01 to 2,165.18 in NZ$46m turnover.

In contrast, the small companies index rose 19.19 to 4,432.80, which indicated that many investors were looking for value outside the blue chips.

SEOUL waited for the government to indicate some boost for the market ahead of the April 11 elections, but it was disappointed in this, and demonstrated its disapproval in a composite index 5.48 lower at 863.28. BOMBAY slipped moderately, with few investors prepared to take positions ahead of the forthcoming parliamentary elections. The BSE-30 index lost 12.69 at 3,226.02.

South Africa presses higher

Johannesburg pushed higher in busy late trade, with golds maintaining strength on a firm bullion price and industrials following suit. The overall index put on 45 at 6,735.5, industrials 38.6 at 8,318.2 and gold shares 38.4 at 1,814.4.

Shares in West Witwatersrand Gold Holdings ended at 75 cents, a loss of 40 per cent from Friday's previous low for the year of R1.25, on worries about the life of the mine.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US$ †
	1 Week	4 Weeks	1 Year	Start of 1996	Start of 1996	Start of 1996
Austria	+1.63	-1.73	+3.13	+8.25	+6.29	+5.07
Belgium	+1.40	-0.72	+22.11	+1.75	-0.09	-1.23
Denmark	-0.63	-2.30	+12.77	+4.21	+2.53	+1.35
Finland	+0.25	+0.82	+9.45	+5.16	+0.49	-0.66
France	+0.84	+0.53	+11.47	+8.07	+5.61	+4.39
Germany	+1.94	+2.25	+24.14	+9.80	+7.77	+6.53
Ireland	+0.26	-0.55	+25.85	+3.22	+2.95	+1.77
Italy	-0.51	-2.28	-1.61	-2.46	+0.17	-0.98
Netherlands	+1.27	+2.78	+29.94	+7.83	+5.89	+4.67
Norway	+0.30	-0.24	+17.97	+5.09	+4.63	+3.44
Spain	+2.64	-1.66	+30.07	+5.06	+4.00	+2.80
Sweden	+2.10	+1.90	+34.75	+11.96	+13.37	+12.07
Switzerland	+2.82	+9.78	+44.81	+10.07	+7.36	+6.12
UK	+1.70	-0.54	+18.25	+1.18	+1.18	+0.01
EUROPE	+1.59	+1.27	+21.38	+5.22	+4.25	+3.06
Australia	+0.38	-0.94	+17.37	+0.55	+6.23	+5.00
Hong Kong	+4.26	-2.20	+26.04	+11.77	+13.08	+11.78
Japan	+2.16	+1.24	+26.15	+0.14	-2.10	-3.23
Malaysia	+2.45	+4.53	+18.38	+13.84	+14.97	+13.64
New Zealand	+2.11	+2.54	+9.44	+1.08	+7.47	+6.23
Singapore	+2.10	-2.78	+23.82	+8.41	+10.04	+8.78
Canada	+0.10	+0.01	+14.40	+5.12	+6.45	+5.23
USA	+1.27	-1.30	+31.11	+5.69	+6.92	+5.69
Mexico	+7.84	+2.78	+77.08	+11.20	+14.67	+13.35
South Africa	-0.97	-0.85	+25.09	+8.17	+1.72	+0.55
WORLD INDEX	+1.61	+0.00	+26.40	+4.48	+4.26	+3.06

† Based on March 22 1996.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY MARCH 22 1996								THURSDAY MARCH 21 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (81)	199.54	-1.3	192.77	134.64	153.05	170.85	-1.1	4.01	202.10	194.90	136.10	155.11	172.77	202.74	158.79	158.81
Austria (24)	183.38	-0.4	177.15	123.73	140.65	140.50	-0.4	1.61	184.06	177.51	123.95	141.27	141.11	199.28	168.11	186.42
Belgium (33)	206.57	-0.6	199.55	139.38	158.43	154.45	-0.6	3.70	207.78	200.37	139.91	159.46	155.38	215.61	174.36	178.49
Brazil (29)	156.84	0.9	151.52	105.83	120.29	284.91	0.9	1.72	155.47	149.94	104.70	119.33	282.34	170.25	108.08	111.60
Canada (101)	156.20	0.2	150.89	105.39	119.80	154.10	0.2	2.44	155.89	150.34	104.98	119.65	153.71	158.71	132.37	132.56
Denmark (33)	292.67	-0.2	282.74	197.48	224.48	226.83	-0.2	1.80	293.28	282.84	197.50	225.09	227.36	305.17	252.41	260.79
Finland (24)	185.83	0.3	179.52	125.39	142.53	179.28	0.3	2.74	185.31	178.71	124.79	142.22	178.82	276.11	171.13	178.01
France (98)	187.29	-0.1	180.93	126.38	143.65	148.74	-0.1	3.12	187.46	180.79	126.24	143.87	148.83	191.17	167.70	170.63
Germany (60)	174.38	0.2	168.46	117.66	133.75	133.75	0.1	1.92	174.04	167.85	117.20	133.58	133.58	174.38	142.25	147.39
Hong Kong (59)	433.37	-0.2	418.66	292.42	332.39	430.18	-0.2	3.36	434.13	418.66	292.35	333.20	430.92	461.19	323.87	343.87
Ireland (16)	260.02	-0.0	251.20	175.45	199.43	231.85	0.0	3.48	260.03	250.78	175.11	199.58	231.93	265.00	207.72	207.72
Italy (59)	72.98	-1.2	70.50	49.24	55.98	85.18	-0.8	2.12	73.84	71.21	49.72	56.67	85.85	82.71	66.30	67.63
Japan (482)	149.93	-0.4	144.84	101.16	114.99	101.16	-0.2	0.76	150.49	145.13	101.34	115.50	101.34	164.82	137.75	142.71
Malaysia (107)	551.31	-0.1	532.60	372.00	422.85	540.06	-0.2	1.60	552.16	532.51	371.83	423.79	541.21	551.96	425.77	472.60
Mexico (18)	1174.08	1.6	1134.22	792.21	900.51	9702.72	1.7	1.43	1155.61	1114.49	778.21	886.94	9539.31	1237.14	683.23	683.23
Netherland (19)	285.46	0.2	275.77	192.61	218.95	215.16	0.2	3.21	284.77	274.64	191.77	218.57	214.67	285.96	228.30	230.26
New Zealand (13)	84.62	0.9	81.75	57.10	64.91	65.39	0.9	4.59	83.87	80.88	56.48	64.37	64.79	85.49	72.39	72.79
Norway (33)	239.24	0.1	231.12	161.43	183.50	208.43	0.1	2.40	239.00	230.49	160.94	183.43	208.15	243.79	205.19	207.49
Singapore (44)	442.97	-0.4	427.93	298.89	339.75	287.77	-0.4	1.39	444.59	428.77	299.48	341.23	288.98	485.21	350.18	356.03
South Africa (45)	387.44	0.5	374.28	261.42	297.16	332.12	0.7	2.54	385.46	371.74	259.58	295.84	329.71	437.76	329.21	336.12
Spain (37)	169.62	-0.4	164.06	114.59	130.25	159.51	-0.5	3.42	170.54	164.48	114.85	130.89	160.31	175.88	124.10	124.95
Sweden (46)	349.77	1.2	337.89	236.00	268.27	342.81	0.6	2.39	345.63	333.33	232.75	265.27	340.67	351.16	232.23	235.84
Switzerland (39)	250.43	0.7	241.93	168.98	192.07	185.30	0.6	1.63	248.62	239.96	167.56	190.97	184.23	250.43	176.45	178.83
Thailand (45)	182.03	2.6	175.85	122.82	139.61	178.46	2.6	1.83	177.47	171.18	119.51	136.21	173.99	193.96	134.53	140.96
United Kingdom (205)	230.57	0.0	222.74	155.57	176.84	222.74	0.2	4.20	230.50	222.30	155.22	176.91	222.30	235.50	201.76	201.76
USA (631)	265.55	0.2	256.54	179.18	203.68	265.55	0.2	2.18	265.03	255.60	178.48	203.41	265.03	269.11	202.54	202.54
Americas (778)	242.27	0.2	234.04	163.47	185.81	203.62	0.2	2.18	241.75	233.15	162.80	185.54	203.18	245.54	185.05	185.05
Europe (726)	207.01	0.1	199.98	139.68	158.77	178.77	0.1	3.06	206.83	199.47	139.28	158.74	178.56	207.01	172.79	173.69
Nordic (136)	296.49	0.7	286.43	200.06	227.41	254.48	0.4	2.34	294.38	283.89	198.22	225.92	253.51	297.48	222.22	226.66
Pacific Basin (832)	163.69	-0.4	158.13	110.45	125.55	113.15	-0.2	1.20	164.29	158.45	110.64	126.10	113.38	171.87	148.86	151.28
Euro-Pacific (1558)	181.64	-0.1	175.47	122.56	139.31	138.02	-0.1	2.09	181.91	175.44	122.50	139.62	138.09	183.39	158.92	160.51
North America (732)	258.80	0.2	250.01	174.62	198.49	258.10	0.2	2.19	258.29	249.10	173.94	198.24	257.59	262.26	198.21	198.21
Europe Ex. UK (521)	189.08	0.1	182.66	127.58	145.02	153.27	0.1	2.47	188.85	182.13	127.18	144.95	153.15	189.08	153.44	154.95
Pacific Ex. Japan (350)	290.03	-0.3	280.18	195.70	222.45	252.27	-0.3	2.97	291.04	280.68	195.99	223.37	253.08	293.58	233.75	234.69
World Ex. US (1750)	183.01	-0.1	176.79	123.48	140.36	142.23	0.0	2.10	183.21	176.69	123.38	140.61	142.25	184.71	159.65	160.94
World Ex. UK (2176)	206.29	0.0	199.29	139.19	158.22	173.19	0.1	1.93	206.25	198.91	138.89	158.30	173.07	207.64	170.30	170.76
World Ex. Japan (1899)	240.67	0.1	232.50	162.39	184.59	226.62	0.1	2.54	240.35	231.79	161.85	184.47	226.27	242.17	191.14	191.42
The World Index (2381)	208.48	0.0	201.40	140.67	159.90	177.74	0.1	2.14	208.43	201.02	140.36	159.97	177.60	209.73	173.10	173.46

Latest prices were unavailable for this edition.

NEWS: UK

Fear of mass slaughter hits dairy shares

By Alison Maitland, David Blackwell and Jimmy Burns

Share prices of dairy and animal feed companies fell sharply yesterday amid fears of a mass slaughter of dairy cows and a deepening consumer backlash against beef.

Unigate lost 30p to 407p and Northern Foods fell 16p to 183p on concern that a cull of cows would create milk shortages for dairy processing companies.

A dairy industry official said a slaughter of herds could lead to thousands of job losses in cheese, butter and skimmed milk powder manufacturing as scarce milk supplies were targeted at the priority liquid milk market and imports of dairy products increased.

Between 12,000 and 15,000 people are employed at about 200 plants across the UK making cheese, butter and milk powder. "Either we end up without fresh milk supplies or the cheese industry goes out of business," said the official.

Dalgety, which produces animal feedstuffs, saw its share price drop 14p to 424p. Feed companies face increased raw material costs following last week's ban on meat and bonemeal in pig and poultry feed. There are also fears a slaughter of cattle would depress demand for feed.

Wimpy International and Wendy's International, the burger restaurant chains, yesterday followed McDonald's in dropping British beef from their menus.

One of London's most popular beef restaurants, the Dutch-owned Gaucho Grill near Piccadilly, launched a publicity campaign to reassure its customers that it serves only imported Argentine beef.

Retailers are also stepping up measures to reassure customers that food containing beef or beef by-products is safe to eat.

Mr John Simons, chief executive of Hazlewood Foods, a main supplier of beef products to large supermarket groups, said: "We have been asked to look at 100 per cent sourcing of beef outside the UK. Retailers have asked us to explore the feasibility of being able to do it – although they have not actually asked us to do it."

Two-thirds of Hazlewood beef already comes from South America but Mr Simons said supermarkets were concerned there should not be any interruption in supplies in the event of tough new measures such as a slaughter of the UK herd.

He said sales of ready-made lasagne and cottage pie were down, and consumers were switching to other ready meals such as vegetarian dishes or those containing fish or white meat.

Tesco, the supermarket group, said: "We're looking long-term at all our products containing anything vaguely related to beef."

It has asked suppliers to investigate alternatives to gelatine, a product derived from beef bones which is used as a gelling agent in a wide range of foods including cheesecakes and yoghurts.

Marks & Spencer said it was considering issuing additional information to customers reassuring them about the quality and safety of its UK beef and beef products.

The UK's biggest single slaughter company, ABP, yesterday warned that it may have to lay off between 350 and 400 workers because of a steep cut in demand for British beef as a result of the BSE scare. Mr Richard Cracknell, ABP's deputy chief executive, said: "Clearly we've lost our export markets, which represented about one-third of our output, and domestic consumption is down. So we've decided to stop slaughtering until the situation becomes clearer."

ABP has more than two week's stock of slaughtered beef which it is now resigned to never selling, except possibly into EU intervention stores.

Government may face lawsuits over CJD

By Robert Rice and Mark Suzman

The government could face legal action from victims of Creutzfeldt-Jakob Disease linked to BSE, lawyers said yesterday. The Law Society said it was unaware of any cases being launched so far; until recently it was thought impossible to prove the fatal human brain condition was caused by BSE.

But the admission by government scientists that 10 recent cases of CJD involving people under 45 were more likely than not to be linked to BSE had improved the chances of successfully proving causation.

Mr Richard Meeran, a partner with London law firm Leigh Day & Co said: "We are told that statistically these cases are unlikely to have arisen by chance and of all the competing causes BSE is the most likely. If that assessment is correct and scientists backed that in a legal setting, you would be able to prove causation." Mr Meeran said there would still be problems in proving government negligence. The important period was between 1986 and 1989 and little was known about what was going on in government at the time.

Experts would be needed to testify as to when the disease was likely to have been contracted and the likely incubation period. The more recently the disease was contracted the stronger the case in negligence, he said.

The attitude of the government to the risk that BSE might cross the species barrier and infect humans would also have to be explored. A requirement to take adequate precautionary measures is increasingly being seen in the European context in such areas as environmental laws. The question of whether other countries would have acted more quickly might therefore become relevant.

However, health insurers said yesterday that even if CJD were to become an epidemic it would not have a vast impact on the health insurance industry. The nature of the disease meant it was not covered by the vast majority of policies.

A spokesman at Bupa, the country's largest provider of Private Medical Insurance (PMI) said that the company was not concerned about the possible impact of CJD because it is a "chronic" illness – one that is incurable or cannot be improved by medical treatment – rather than an "acute" one.

A Customs officer in the port of Calais in northern France inspecting a meat truck from Northern Ireland yesterday before it was barred from continuing into France. The Ulster Farmers' Union is urging the British government to establish a separate health status for beef from Northern Ireland, where 10 per cent of UK cattle are kept. The union said the incidence of BSE in the region was much lower than elsewhere in the UK

Scots protest at England link

By James Buxton in Edinburgh

The Scottish National party said yesterday that the British government should take steps to distinguish Scottish beef produced on farms covered by a quality assurance scheme from other British beef. The party said such a distinction would be justified because Scotland has a much lower incidence of BSE than England.

Mr Ron Gibson, the party's agriculture spokesman, said more than 6,000 farms – or 70 per cent of livestock farms in Scotland – had signed up to the Scottish Quality Beef and Lamb Association. Scottish quality beef could therefore be traced back to BSE-free farms. "But Scottish quality beef is being tarred with the BSE brush across Europe and the world," he said.

Most Scottish beef herds are fed natural products such as grass, turnips and silage and have not been exposed to the ruminant-based feed which carried BSE. A far smaller proportion of cattle in Scotland are dairy cows, which have been worst affected by BSE.

The party also intends to petition European countries to accept Scottish beef which is covered the quality assured scheme.

● The BSE crisis will push up raw material costs to animal feed companies, the Agricultural Supply Trade Association said yesterday, Alison Maitland writes. The British government's decision last week to ban the use of animal protein – meat and bonemeal – in feed for pigs and poultry means feed manufacturers are scrambling for alternative non-animal sources of protein.

However, substitutes such as fishmeal and soya bean meal are already expensive because of worldwide shortages.

EU wary of pleas for extra aid for British farms

By Caroline Southey in Brussels

Britain will have to make a strong case in favour of bailing out its cattle farmers affected by the BSE crisis if extra European Union aid from the Common Agricultural Policy is to be released, according to EU officials.

Mr Douglas Hogg, the UK minister for agriculture, said at the weekend that the British government hoped the European Commission would provide an emergency aid package to help pay for a slaughter programme.

"There is nothing automatic about any compensation for situations like this," an EU official said.

Mr Franz Fischler, EU commissioner for agriculture, is not expected to address the question of aid for British farmers until the UK has presented its plan for eradicating or containing BSE, and a cost assessment of the action.

"Nothing can happen here until the British government comes forward with a plan," the EU official said.

EU officials point out that there are no precedents for funding projects on the scale being considered by the UK, although the Commission was involved in co-financing programmes with EU member states to eradicate foot-and-mouth disease and swine fever.

EU officials have also warned that Mr Fischler will face severe constraints when considering what funds to make available in any emergency package. "Prudence is the watchword in Brussels. Nothing can be taken for granted," the official said.

Agricultural officials point out that most of the CAP budget of Ecu40bn for 1996 has been accounted for and that expected savings of Ecu4bn between 1997 and 1999 are not expected to materialise until after next year.

Other options for possible assistance for farmers appear fraught with difficulty. Traditionally, the EU has been obliged to buy stock under the intervention system, according to which it takes agricultural produce when prices fall below certain levels.

For beef, prices have to fall below 60 per cent of the intervention price of Ecu360 per 100kg and remain there for two weeks. UK beef prices are currently below that level. However, EU officials point out that the Union has always bought into intervention knowing that it could resell the stock.

Similarly, it would be reluctant to grant farmers export refunds for produce if "there was a reasonable suspicion that the produce was unsellable", the trade official said. The EU has only meagre provisions under the CAP for disease "eradication" programmes – a total of Ecu67m this year.

UK NEWS DIGEST

About-face on nuclear sell-off

The government yesterday pledged £230m ($352m) of public money to help cover decommissioning costs of nuclear power stations. The move reversed its promise that the private sector would shoulder all liabilities as part of nuclear privatisation.

The climbdown is understood to have salvaged the £2.6bn privatisation of British Energy, the future owner of the UK's nuclear generators, which was threatened by a row over liabilities.

Mr Ian Lang, trade and industry secretary, yesterday offered "an initial endowment of £230m [to start up] the segregated fund for the long-term decommissioning of British Energy's nuclear power stations after privatisation." British Energy, which is due to come to market this summer, will be required to pay into the fund about £16m a year out of its revenues from electricity generation.

Jardine Fleming arm investigated

Jardine Fleming, the Far Eastern investment bank half owned by Robert Fleming, yesterday said its asset management arm had been under investigation by UK regulators since last month. It denied any wrongdoing.

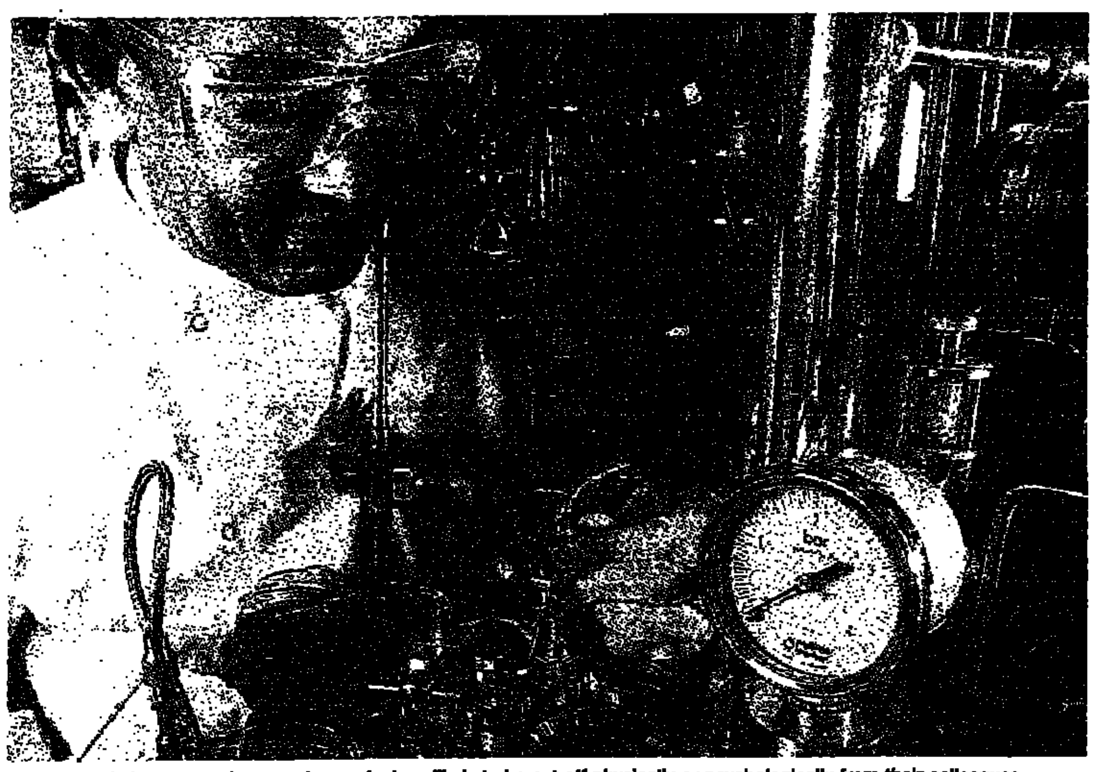
Imro, the UK regulator for the fund management industry, is believed to be examining whether employees of Jardine Fleming Asset Management made personal profits at the expense of clients.

But it has come to no final conclusions and Jardine Fleming said: "We do not believe there has been any impropriety."

Top airports

Manchester Airport and Changi Airport, Singapore, have been voted the world's two best airports by world airline passengers, the International Air Transport Association said. London Gatwick was ranked 12th and Heathrow 26th. Manchester scored 8.32 points out of 10.

TECHNOLOGY



Splendid isolation: researchers are increasingly unlikely to be cut off physically or psychologically from their colleagues

Quiet revolution

Vanessa Houlder begins a series on the new pressures for R&D managers amid intensifying competition

For many years, corporate research and development took place in splendid isolation. Companies built leafy, secluded research laboratories in the countryside where scientists could give full rein to their creativity, untrammelled by commercial pressures.

But this physical separation – which was mirrored in the detached attitudes of researchers – has become increasingly unfashionable.

R&D functions are going through a quiet revolution, driven by intensifying competition and shorter product life cycles. They are becoming more closely linked to other parts of the business; researchers are becoming more aware of business economics and the needs of customers.

The urgency of these issues was underlined at a recent meeting of the technology heads from 14 of Europe's most research-intensive companies at Lake Geneva. The colloquium, organised by consultants Arthur D Little, brought together senior technology managers from Philips, BT, Renault, Nestlé, ABB, Audi, 3M, Nokia, Ericsson, Aerospatiale, BASF, Royal Dutch/Shell Group, Siemens and BMW.

Three closely interwoven themes emerged as the top priorities in technology management over the next five years:

● First, building "a seamless innovation process", by bringing together everybody involved in product development from those who dreamt up the original idea to those who took it to market.

This means bridging different functions within the organisation, to get away from the "not invented here" mentality. "We need to change the management style from a functional to a team organisation, with teams consisting of people representing the whole process: marketing people, R&D people, manufacturing people and so on," says Ulrich Hackenberg, a senior manager of Audi.

● Second, changing the "mindset" in the R&D division, by inculcating a greater commercial awareness among R&D staff. "Mindset is a major issue," says Jim Street, group research co-ordinator of Royal Dutch/Shell Group.

"All our research people could pass a test on economics; some of them have a very high level of urgency. We just want to change their [the research staff's] mindset so that they understand they get to feel good only if two things happen: they get the job done, and the business they support performs to corporate standards."

● Third, the "strategic" management of technology. This involves developing a clearer understanding of what could happen in the future, in order to anticipate potential shifts in technologies and markets.

"We need to have a way of planning for the unexpected," says Jorma Mobrin, vice president of Ericsson.

"There is no crystal ball, and predicting what's needed for the future is risky, but somebody's got to do it – and that responsibility seems to be falling to the chief technology officer more and more," comments Ron Jonash, vice president of Arthur D Little.

Moreover, companies believe they should be building up a clear sense of which competences should be maintained internally and which would be better coming from outside.

The need to speed up product innovation underpins many of these goals. Craig Tedmon, executive vice president of ABB, argues that researchers in corporate laboratories tend not to have a compelling need to get to the marketplace. "Historically, maybe that was OK but today our markets are so unbelievably competitive that you simply have to move as absolutely fast as possible," he says.

Increasingly, companies believe that rapid new product development depends on teamwork between people from different parts of the business. In a recent project, BMW took all the members of the development team off-site for two weeks, to get to know each other and crystallise their ideas.

Audi believes it cut the development time for the Audi A4 by half, by forming "concept" teams of 15 to 20 people who represent all the departments involved.

'We have short-term profit and loss pressures which do not allow us to focus on long-term visions'

ABB also favours off-site, crisis-type teams for developing new products. Moreover, it uses "war-game" exercises, with marketing staff representing customers, to simulate the market's response to new ideas. The exercise can have a "very confrontational and certainly controversial" element, says Tedmon. He argues, however, that ideas are best criticised within the company before they are exposed to customers and competition.

The responsibility for the gulf in attitudes between R&D and other parts of the organisation does not lie solely with researchers. According to Arthur D Little, marketing experts are less concerned than R&D people about improving their relationship. When ADL invites equal numbers of marketing and research people to conferences on the interface between R&D and marketing, 90 per cent of the audience is made up of R&D specialists.

Indeed, some organisations are increasingly concerned about how to maintain the balance between projects that focus on customer needs and longer-term issues.

"We have short-term profit and loss pressures which do not allow us to focus on long-term visions," says Wolfgang Ziebart, a BMW director. "There is a reluctance to take risks in these short-term, profit-driven times," says Claus Weyrich, vice president of corporate R&D at Siemens.

Kees Bulthuis, senior managing director of Philips Research, admits that the company's restructuring has made it difficult to persuade people to work in long-term research for fear of being seen as second rate. "This is absolutely the wrong message, and one without any real foundation, but this kind of thing happens in a company where you are under strain," he notes.

Graham Davies, manager of the corporate research programme at BT, is also anxious about creating the right balance between short-term and long-term work. "People who work on customer-facing projects always think they are much more important projects than corporate-type research," he says. "Most important for me is going to be making sure that the marketing and the customer-facing divisions understand the importance of longer-term research."

Many of the technologists that took part in the seminar believed that economic, financial and regulatory pressures have led to much more focus on the short term. Many companies have stripped out apparently non-essential overheads, such as long-term planning departments, in a bid simply to survive.

Kaj Lindén, senior vice president of technology at Nokia, says: "The long term in our minds has almost disappeared. Two to three years is the longest we think ahead."

Ron Jonash, vice president of Arthur D Little, points out that North American companies – which usually embarked on "re-engineering" R&D departments before their European counterparts – have tended to focus on the short term and cut longer-term technology development. "Now, all of a sudden, every CEO in every company in the US is talking about longer-term R&D, asking 'what are the new ideas?'," he says.

US companies are acutely aware of the need to find ways to measure the long-term impact of technology on the bottom line. "There is a feeling that the R&D and technical community has got to get on board in adopting measures that relate to the value of the company," says Jonash.

The picture painted by the seminar is of intensifying pressure on R&D managers, as they struggle to maintain the quality of long-term research while satisfying short-term business demands.

At present, companies believe they can square this circle by improving the link between technology and other parts of the business. The importance of building bridges between different parts of the business has risen steeply in its perceived importance in recent years – to the point where it is more important even than improving the R&D function itself.

Says Bulthuis: "I think you gain much more by having that linkage than from having greater effectiveness in R&D itself."

Transplanting knowledge

Animal cells may be transferred to humans, writes **Victoria Griffith**

A recent experiment that transferred a baboon's bone marrow to an Aids patient in San Francisco a few weeks ago did not provide the cure scientists had been hoping for.

But researchers believe the concept behind the trial – the transfer of animal cells to humans – may soon play a role in treating a number of debilitating illnesses such as diabetes, Huntington's disease and multiple sclerosis.

While the transplant of animal organs to humans – known as xenografts – will probably not meet with success for many years, researchers believe such transplants at the cellular level are not far off.

Animals are considered a prime source for transplants because of the serious shortage of human donors. The idea is for the cells to act as mini-factories, producing substances the patient needs. A number of diseases are triggered by the lack of certain substances in the body.

The US biotechnology company CytoTherapeutics, for instance, is testing analgesic-producing calf cells to block pain in humans, while another US group, Diacrin is experimenting with insulin-producing pancreatic islets of pigs to treat diabetic patients.

CytoTherapeutics is also using cellular xenograft technology to take aim at Alzheimer's and multiple sclerosis, while Diacrin is looking at treatments for Parkinson's and Huntington's.

Astra, the Swedish pharmaceutical group, has licensed CytoTherapeutics' pain technology, which analysts say has tremendous potential. "It looks very promising, and pain is a multibillion dollar market," says Marc Ostro, a biotechnology analyst at the Union Bank of Switzerland.

As in animal-to-human organ transplants, rejection by the host is the main risk in cellular xenografts. Unless the cells are protected from assault by the host's immune system, they will be recognised as intruders and attacked.

Rejection is a problem not just because it erases any medical benefit but also because it may trigger an auto-immune response that can in itself be fatal. The solution in human-to-human transplants has been to suppress the patient's immune system, but this is highly risky, and in the case of chronic illness, unthinkable.

Masking the cells so that they will be accepted by the host is a principle component of xenograft research. CytoTherapeutics does this by wrapping the cells in a semi-permeable silicon cylinder. "We haven't seen any immune response in any of the patients involved in our human trials," says Seth Rudnick, chief executive.

In a different approach, Diacrin coats its animal cells with an antibody to prevent rejection by the host. The antibody in effect plugs up the part of the cell the immune system would recognise as foreign.

"Encapsulating the cells, as CytoTherapeutics does, wouldn't work in the case of Huntington's or diabetes, where we need the cells to interact with the rest of the body," says Jonathan Dinsmore, the scientist who is in charge of cell transplants at the company.

In both methods, there is a risk that the xenografts would transfer animal viruses to humans. CytoTherapeutics believes its encapsulation method provides superior protection, but scientists say the membrane could break inside the body. "This could be a very serious problem," says Pierre Galletti, a professor at Brown University in Providence, Rhode Island, and founding scientist of CytoTherapeutics.

Rudnick, however, says the animals which CytoTherapeutioos uses are observed through generations for signs of any virus that could reach the host's body.

The social acceptability of the cell xenografts is another uncertainty. For cellular xenografts, scientists are forced to kill the donor animal. Rudnick believes the technology is morally more acceptable than animal-to-human organ transplants because a single group of cells can be cultured in the laboratory to treat a large number of patients.

Timeless Greek beauties

William Packer visits Venice to see the products of a remarkable people

Among the 14 important exhibitions held at the Palazzo Grassi since it was acquired by Fiat more than 10 years ago, there have been two of broader cultural scope than the purely art historical or aesthetic. Each in its way opened up its subject to a general audience in the light of the latest archaeological research and speculation.

First it was the Phoenicians, then the Celts. Now it is the turn of the Greeks, but not the Greeks of ancient Greece itself, the fount of All Civilisation as We Know It, but the Greeks of the diaspora, most especially westward, and most of all to the southern half of the Italian peninsula and to Sicily. Indeed, this exhibition might as well have been called the Greeks in Italy.

We know from Homer that the Achaeans were an aggressive, energetic and wandering nation, and the point is well made at once that the expansion from the Minoan origins, through the Aegean and on through the Mediterranean, was under way long before Athens rose to its comparatively short-lived pre-eminence in the 5th century BC.

Cumae in the Bay of Naples, perhaps the first Greek *poleis* or independent city-state in the west, was set up by Euboeans from around Chalcis in about 750BC. The essentially imperial idea, that all flowed from the centre, the *metropolis*, and remained dependent on it in terms of duty and allegiance, does not hold.

The point is hammered home in the chronological arrangement of the show, which takes the story from the earliest heroic beginnings, to the slow hellenistic decline and the final fall under the sway of Rome. It is a story told in terms of parallel development and exchange, and the golden age of Periclean Athens is almost incidental at about half-way.

That is not to say that there was no central cultural influence. Trade and commerce would have made it inevitable to some extent, and such shared and apolitical institutions as the Olympic Games, theatre and religion, worked a strongly unifying effect. But any exchange was clearly both ways and back again.

One of the most beautiful objects, in its sculptural purity, is a bronze helmet of a Corinthian type, of about 474BC, found beside the Alph, the sacred river, at Olympia. The engraving on its side tells us it was taken as booty from the Etruscans at Cuma, and brought here by "Hiaron the Dinomenide and the Syracusans" as an offering to Zeus.

A pair of large, rather squat painted pots – the ceramics are spectacular – with tall, angular, horn-like handles, are Daunian in form but yet with Attic decoration. Was the artist a visitor from Greece, had he trained there, had he picked the manner up from an itinerant painter, or from what had passed through his hands?

It was long thought the spread of the Attic style was fed from a central source, but the discovery of kilns and workshops full of the stuff in southern Italy explodes the myth. Exchange and movement are the rule.

The strength and vigour of the work of the western Greeks sing out, in sculptural form, drawing and decoration alike. Such qualities off-set what might be thought a lack of metropolitan purity or sophistication, or a falling away from the high ideal of Classical Art.

Indeed, they register an openness to other influences and sources, a touch of Etruscan here perhaps, in some of the tutelary figures, or the Celtic there, in an extravagant bronze tripod, decorated with leaves and beasts.

It is all too easy, here in Venice, to see in the grotesque stylised masks actors of the 3rd century BC, a distant foreshadowing of the *commedia dell'arte*.

The drawing on the pots is an unfailing delight, wonderfully inventive and direct, and almost modern in the simplicity the pottery imposes. To think of Picasso and Matisse in this connection is a cliché of modern criticism, but unavoidable. It does these delicate, timeless images of Arcady, nymphs and shepherds, gods and heroes, no harm.

The perception of the essential decadence of the Hellenistic period, between the decline of Athens as a power and the rise of Rome, has for too long been another, but more damaging critical prejudice. Is it its easy naturalism, with the whiff of hedonism about it, that so upsets the purist?

Even so, the period produced some of the most beautiful of all sculpture, represented here by a number of remarkable things – a sinuous statuette of a headless woman; a nude female bust, modelled in clay as freshly as any French terracotta portrait of the 18th century; two tiny terracotta girls at knucklebones (all from the 2nd century BC).

At the centre of the show sit the two *Throne* reliefs, of Boston and Ludovisi, rehearsing the old controversy of their putative relationship. It hardly matters, though I doubt the Boston *Throne* to be the 19th century fake some believe it, carved as it is from marble from the same quarry as the Ludovisi. It is just not so good.

The Ludovisi, dating from about 460BC, is wonderful, even though it lacks the heads of the supporting figures, whose exquisite arms, fully carved, reach down to lift Aphrodite from the waves. It is enough.

A magnificent bronze ram from the 3rd century BC, outsize and beautifully patinated over an age of stroking, unofficially but effectively concludes the show.

This is a dense exhibition, made too dense perhaps by the texts on every wall. Impossible to summarise, it is fascinating nevertheless.

The Greeks in the West: Palazzo Grassi, S. Samuele, Venice, Italy, until December 8. Sponsored by Fiat.

Greek treasures in Venice: Busto di Proserpina, terracotta, Museo Civico 'G. Fiorelli', Lucera

Theatre / **Sarah Hemming**

War memories exorcised

John Misto's *The Shoe Horn Sonata* is a disconcerting example of the fact that a great subject does not always make a great play. Misto's Australian play, receiving its British premiere at the King's Head in Islington, explores a great subject, and does so with compassion and concern. But his style and structure are efficient, rather than subtle.

The play tells the story of two women interned in a Japanese PoW camp during the second world war: Bridie, an Australian army nurse, and Sheila, the well-bred daughter of a British colonial family. We meet them 50 years on, as they are reunited in Melbourne for a television programme about their experiences.

We learn how they met, both fighting for life in the South China Sea after their boats were torpedoed during a bungled evacuation from Singapore. We hear how they became inseparable during their grim years in camp. We gain a picture of the cruelty of the Japanese prison guards, the bravery and fortitude of the women and the shocking indifference of their respective governments, who found the women's predicament an embarrassing indictment of their own incompetence.

All these revelations are made before camera to an off-stage voice asking sensitive questions. But the true motor of the play is a psychological detective story: why did the two women, having been so close during the war, never see each other again for 50 years? As the play gropes towards the answer to this question, Misto contrasts the memories recalled in the TV studio with the slower, more painful journey towards the truth conducted in Sheila's hotel bedroom. And in so doing, he explores, interestingly, the validity of exorcising old demons and the real cost of the war for the two women.

It is a moving subject, and the play commands your attention throughout, leaving you in no doubt of Misto's respect and admiration for these women. But it is also a subject that invites sentimentality, which Misto does not always avoid, and melodramatic outbursts, which turn into pure ham on stage, despite the best efforts of director Dan Crawford and of Susannah York and Maggie Kirkpatrick, who play Sheila and Bridie.

This is a pity, for otherwise the two actresses are nicely counterpoised: York is all pinched lips, delicate poise and refinement as Sheila, who has buried her grief in self-denial; and Kirkpatrick is all bluff no-nonsense and cheery bluster as Bridie, who has concealed her pain beneath a devil-may-care attitude.

Their final reconciliation, as they waltz round the hotel bedroom, is touching, but it is achieved through the sterling persistence of the actresses and their commitment to the material, rather than through the writing itself.

Continues at the King's Head, London N1 (0171-226 1916).

Music / **Richard Fairman**

Cleveland diplomats

The Cleveland Orchestra is described by the state governor as "Ohio's best international ambassador". This year it is being kept busy with ambassadorial missions, as this eight-city European spring tour will be followed by a visit to the Salzburg and Edinburgh festivals in the summer.

Given the fanfare for its arrival, the orchestra must have been disappointed that paid attendance at the Royal Festival Hall concert last week – its sole UK date on this tour – was not higher. Christoph von Dohnányi, who has been music director since 1984, is no stranger to London audiences thanks to his close association with the Philharmonia and had managed to secure full houses for them earlier in the year at concerts fairly similar to this one.

Perhaps the Cleveland Orchestra is short on mystique – that special aura that seems to form a halo over the heads of the Berlin and Vienna Philharmonics, even when they are playing at less than their best. Cleveland's history since the second world war has been honourable, but less glamorous: two decades of strict classicism under the fearsome Georg Szell, calculated precision under Lorin Maazel in the 1970s and now Germanic thoroughness under Dohnányi.

Purely technical standards of ensemble and discipline have been high throughout – and still are, to judge from last week's concert (despite a few jet-lagged slips). Dohnányi is no slouch. Just as he challenges his players to reach their top level, so he asks audiences to open their minds. It was a novel idea to open with Ligeti's *Atmosphères* and then go straight into the Prelude to Act 1 from Wagner's *Lohengrin* – contrasting examples of composers exploring motionless sounds hanging high in the ether.

The performance of Schumann's "Spring" Symphony that followed was *echt* Dohnányi, strong on rhythm and clarity, structure and impulse, but without much beauty. It sounded less romantic than usual. Stravinsky's *Firebird*, performed complete, made an impressive second half and showed the grip that both conductor and players exert on a complex score. There was marvellous detail to enjoy here and virtuosity that never seemed to dazzle for its own sake. In the last brass peroration Dohnányi did not add any gloss or draw out the cinematic final credits; he just played the notes, as written. Stravinsky would have approved.

Sponsored by the Ohio Department of Development. Tour ends in Paris on April 3, 4 and 5.

Opera / **David Murray**

Famous Tune rings out from Welsh visitors

The Welsh National Opera played Covent Garden last week, with credit and friendly acclaim. For their 12th London "Amoco Season" they brought a new *Cav–&–Pag* double bill and a new Stravinsky *Rake's Progress* (reviewed from Cardiff by Richard Fairman)

It is worth looking hard at such visitors; for we may soon find ourselves depending upon them. We seem to be approaching the crazy point when *both* of our London opera houses will be shut for a couple of years, and visiting companies will have to be a large slice of opera-lovers' bread-and-butter.

Both productions – or all three, if you like, though Elijah Moshinsky's stagings of *Cav* and *Pag* are clearly designed as a united pair, played off against each other by contrasts – took handsomely to the larger stage.

For Mascagni's *Cavalleria Rusticana*, Michael Yeargan's ripely naturalistic Sicilian piazza served the plain, folksy action (what else could you do with this piece?) very well. For Leoncavallo's *Pagliacci* melodrama he took the scene chronologically forward, and allowed himself more fantasy: some 20th-century trappings in a stark, visually gripping set, dramatically lit by Howard Harrison.

Although *Cav* sounded honest and cultivated, it remained temperate: our withers were not remotely wrung. The WNO's conductor Carlo Rizzi is much admired in Rossini, but in Mascagni's watery-popular idiom he was shy of incisive effect – there were many sweetly musical, sedulously drawn-out passages, much of a muchness, without strong highs or lows.

The principals (Dennis O'Neill, Anne-Marie Owens, Peter Sidhom and Menai Davies) went sincerely through their roles; only Leah Marian Jones, as the neglected wife Lola, showed some vital backbone in her modest part.

When the O'Neill and Owens voices united for the Famous Tune, it was less of a climactic thrill than a matter of turning earnestly to the next page. The WNO chorus were unwontedly tame, probably because – like everybody else – they were singing a one-off performance in a bigger house than they are used to. O'Neill appeared bravely as both the adulterous Turiddu in *Cav* and the tragic cuckold Canio in *Pag*, strenuous roles each. He is our gutsiest, most persuasively Italianate tenor, but by "Vesti la giubba" in *Pag* his heroic ring was fading a little.

Rosalind Sutherland's bright Nedda held firm, Sidhom's Tonio was uninhibitedly repellent, Jason Howard's sexy Silvio confidently sung and vividly laid-back. Lovers of *Pag* should have been reasonably satisfied. I should bet nevertheless that our generation is the last for whom *Cav–&–Pag* has been a regular fixture. Below a certain age, *nobody* now knows either *Cav's* Famous Tune or "Vesti la G.".

As conducted by Mark Wigglesworth and designed by Laura Hopkins, *The Rake* had a quirkier, more pungent tang, as befits Stravinsky's between-several-stools opera. If Hopkins' sets and costumes, jumping deliberately through successive periods from the notional time of the Hogarth-inspired story to the date of the operatic première (1951), registered no great cumulative effect – the unstable, eclectic manners of the opera are unsettling enough – each scene boasted a clean stamp.

Paul Nilon's crisp little Rake and his Anne Trulove, Alwyn Mellor, were vigorously stylish, with elegant support from Claire Powell's bearded-lady Baba and Neil Jenkins' auctioneer.

As Nick Shadow, the devil himself, Bryn Terfel's looming presence was sufficient without all the heavy menace he forced upon his vocal line. Relentless suavity *à la* Auden, the librettist, would have served his turn well enough and offered more musically expressive variety.

Sponsored by Amoco, the Friends of WNO, the WNO Partnership and the *Royal Opera*.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

JAZZ & BLUES
Bimhuis Tel: 31-20-6233373
● Enrico Rava and Franco D'Andrea: the trumpeter and the pianist perform works by Armstrong and Beiderbecke. Pianist Giorgio Gaslini performs works by Ayler; 9pm; Mar 28

■ BERLIN

OPERA
Deutsche Oper Berlin
Tel: 49-30-3438401
● Un Ballo in Maschera: by Verdi. Conducted by Rafael Frühbeck de Burgos and performed by the Deutsche Oper Berlin. Soloists include Neil Shicoff, George Fortune and Michele Crider; 7.30pm; Mar 27; Apr 1

■ BONN

OPERA
Oper der Stadt Bonn
Tel: 49-228-7281
● Don Giovanni: by Mozart. Conducted by Shuja Okatsu and performed by the Oper der Stadt Bonn. Soloists include Michael Volle and Karen Notare; 8pm; Mar 27

■ CHICAGO

OPERA
Civic Opera House & Civic Theatre
Tel: 1-312-332-2244
● Siegfried: by Wagner. Conducted by Zubin Mehta and performed by the Lyric Opera of Chicago. Soloists include Siegfried Jerusalem, Graham Clark, Eva Marton and Matti Salminen; 6pm; Mar 28

■ DRESDEN

OPERA
Sächsische Staatsoper Dresden
Tel: 49-351-49110
● Der Fliegende Holländer: by Wagner. Conducted by Peter Schneider and performed by the Sächsische Staatsoper Dresden. Soloists include Waltraud Vogel, Barbara Bornemann and Hans Sotin; 7pm; Mar 27

■ EDINBURGH

EXHIBITION
Scottish National Portrait Gallery
Tel: 44-131-5568921
● John Kobal Photographic Portrait Award 1995: exhibition of 73 entries for this award set up to promote contemporary portrait photography; to Mar 30

■ HAMBURG

OPERA
Hamburgische Staatsoper
Tel: 49-40-351721
● Khovanshchina: by Mussorgsky. Conducted by Sebastian Lang-Lessing and performed by the Hamburg Oper. Soloists include Aage Haugland, J. Patrick Raftery and Wieslaw Ochman; 7pm; Mar 27, 30

■ HELSINKI

DANCE
Opera House Tel: 358-0-403021
● Don Quixote: a choreography by Patrice Bart after Marius Petipa to music by Minkus, performed by the Helsinki Ballet. Soloists include Jessica Kellgren, Jukka Aromaa and Jorma Uotinen; 7pm; Mar 27

■ LAUSANNE

CONCERT
Théâtre Municipal
Tel: 41-21-3101600
● Dichterliebe: by R. Schumann. Performed by bass-baritone Gilles Cachemaille, accompanied by pianist Irwin Gage; 8pm; Mar 27

■ LONDON

AUCTION
Christie's Tel: 44-171-8399060
● Arms and Armour: including the A.N. Kennard Collection. Highlight of this sale is a pair of 20-bore silver-mounted flintlock pistols made by Henry Hadley in London, circa 1765, probably for George, second son of Sir John Clerk of Penicuik; Mar 27
CONCERT
Queen Elizabeth Hall
Tel: 44-171-9604242
● The Academy of St. Martin in the Fields: with conductor Nicholas McGegan, violinist Kenneth Sillito, cellist Stephen Orton, oboist Celia Nicklin and bassoonist Graham Sheen perform works by Mozart, Haydn, Beethoven and Schubert; 7.45pm; Mar 27
Wigmore Hall Tel: 44-171-9352141
● Dorota Anderszewska and Piotr Anderszewski: the violinist and the pianist perform Janacek's Sonata, Beethoven's Sonata in F, Op.24 and Prokofiev's Sonata in F minor, Op.80; 7.30pm; Mar 27
POP-MUSIC
Royal Albert Hall
Tel: 44-171-5898212
● Bruce Springsteen – Solo Acoustic Tour; 8pm; Mar 27

■ LUCERNE

CONCERT
Jesuitenkirche Tel: 41-41-2103562
● Concentus Musicus: with conductor Nikolaus Harnoncourt and soprano Elisabeth von Magnus perform Haydn's Symphony No.52 in C minor, Symphony No.31 in D (Horn Signal) and Il Retorno di Tobia. Part of the Osterfestspiele 1996; 7.30pm; Mar 27

■ LYON

CONCERT
Auditorium Tel: 33-78 95 95 95
● Orchestre National de Lyon: with conductor Stanislaw Skrowaczewski and horn-player Yves Stocker perform works by Mozart and Shostakovich; 8.30pm; Mar 28, 29, 30 (6pm)

■ MADRID

EXHIBITION
Museo Nacional Centro de Arte Reina Sofia Tel: 34-1-4675062
● Balthus: retrospective exhibition featuring the work of contemporary artist Balthasar Klossowski de Rola, better known as Balthus. The display includes some 50 paintings and approximately 50 drawings and watercolours from private collections and several museums; to Apr 1

■ NEW YORK

CONCERT
Merkin Concert Hall - Abraham Goodman House
Tel: 1-212-5013330
● Lucy Shelton: accompanied by pianist John Constable. The soprano performs works by Carter, Knussen and Stravinsky; 8pm; Mar 27
OPERA
Metropolitan Opera House
Tel: 1-212-362-6000
● Roméo et Juliette: by Gounod. Conducted by Edoardo Müller and performed by the Metropolitan Opera. Soloists include Ruth Ann Swenson, Jane Bunnell and Francisco Araiza; 8pm; Mar 27, 30

■ PARIS

CONCERT
Salle Pleyel Tel: 33-1 45 61 53 00
● Orchestre de Paris: with conductor Theodor Guschlbauer and pianist François-René Duchâble perform works by Grieg and Schoenberg; 8.30pm; Mar 27, 28

■ SAN FRANCISCO

EXHIBITION
MOMA - Museum of Modern Art
Tel: 1-415-357-4000
● Tina Modotti: Photographs: spent mostly in Mexico, Tina Modotti's photographic career has been at times eclipsed by stories about her life and her dedication to politics. A life filled with alliances with powerful artists, including her teacher and lover Edward Weston. This exhibition aims to bring attention to this artist's innovative aestheticism and raise questions about the role of art in politics and its place in the lives of "common" people; from Mar 28 to Jun 2

■ STOCKHOLM

OPERA
Kungliga Teatern - Royal Swedish Opera House Tel: 46-8-7914300
● Madama Butterfly: by Puccini. Conducted by Muhai Tang and performed by the Royal Opera Stockholm. Soloists include Noriko Ogawa, Inger Blom, Carina Morling and Ingus Petersons; 7.30pm; Mar 27

■ VALENCIA

EXHIBITION
IVAM Centre Julio Gonzalez
Tel: 34-6-3863000
● Ricard Giralt Miracle y la Tipografia: retrospective exhibition focusing on the typographic work created by Giralt Miracle from the 1920s to the 1940s; from Mar 28 to May 19

■ VIENNA

OPERA
Wiener Staatsoper
Tel: 43-1-514442960
● Die Entführung aus dem Serail: by Mozart. Conducted by Asher Fisch and performed by the Wiener Staatsoper. Soloists include Valeria Esposito, Natalie Dessay and Dion van der Walt; 7pm; Mar 27; Apr 1

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10.00
European Money Wheel

18.00
Financial Times Business Tonight

COMMENT & ANALYSIS

Martin Wolf

A lesson for the Chinese

Beijing needs to imitate Taiwan in order to attain its economic goals and also to achieve unification on a mutually agreeable and beneficial basis

China's threats against Taiwan have been roundly rebuffed in the most effective way – to Beijing – dangerous way: an election. But mainland China's policy has been a gigantic mistake. Instead of threatening Taiwan, China's overwhelming interest is in learning from it. It has much to learn, for Taiwan has an outstanding claim to being the most successful of all economies over the past 45 years.

At $11,500 in 1994, Taiwan's gross domestic product per head was 87 per cent of New Zealand's and almost two-thirds of the UK's. Between 1951 and 1994 its real gross national product increased 36 times (a compound annual growth rate of 8.7 per cent), while real national income per head rose 11 times (an annual growth rate of 5.8 per cent).

Moreover, the benefits of this staggering growth have been widely shared, since Taiwan's income distribution is more equal than that of most high-income countries. Nor is rapid growth over. Notwithstanding the political uncertainty, Taiwan's economy grew at a compound rate of 6.8 per cent a year between 1990 and 1994. In 1994, Taiwan's 20.1m people generated output worth $241bn, while mainland China's 1.2bn generated only $630bn.

Taiwan is an international pariah. But this has not affected its economic performance. With re-exports from Hong Kong and Singapore excluded, Taiwan ranked as the world's 12th largest merchandise exporter in 1994. Taiwan's exports of $92.9bn were not far behind mainland China's $121bn. What matters in trade is not political clout but economic competitiveness.

At market prices, Taiwan's income per head is 20 times as high as mainland China's. In purchasing power, it is perhaps six times as high. Its population is highly educated, well travelled and free. Its politics are now democratic. Why should the Taiwanese want to unite with a backward, dictatorial behemoth, even if they consider themselves Chinese?

Their reluctance is a matter of indifference to China's rulers. But China must take account of the losses it would suffer if it tried to seize Taiwan. It would fail economically and politically even if it succeeded militarily. Taiwan's wealth does not lie in natural resources but in the dynamism of its people, nurtured by a supportive policy environment. If an invasion were followed by imposition of the regime Beijing runs, China would inherit ashes.

This is not the only respect in which Beijing would lose. The skills of the Taiwanese have been important for Chinese development. According to Taiwanese figures, they made 10,764 investments in the mainland between 1991 and 1994, for a total value of $4.6bn. Unofficial Chinese estimates suggest the figure could be four times as large.

The threat to China is, however, far greater than that. Successful exploitation of opportunities afforded by the international economy has driven China's rapid recent growth. China needs foreign trade. Because of the absence of secure property rights. China is also heavily dependent on external entrepreneurship, particularly from the overseas Chinese. An invasion, with all that would indicate for the balance of power in Beijing and relations with the rest of the world, would gravely threaten China's hopes for rapid development. Significantly slower growth could even undermine the stability of China's ideologically bankrupt communist regime.

A Chinese invasion would, in short, be worse than a crime. It would be a massive blunder. While folly of this magnitude can never be ruled out, it is difficult to believe Beijing would venture this far. What it needs to do, instead, is become as much like Taiwan as possible. The less advanced society should imitate the more advanced. This is not only how to achieve China's economic goals. It is also the only way to achieve unification on a mutually beneficial and agreeable basis.

What does China have to imitate? In a pamphlet published last month, Ian Little, formerly professor of development economics at Oxford University, summarises the orthodox view thus:

"The rapid growth of a number of east Asian countries is fully explicable in conventional economic terms, that is very high rates of both material and human investment... In Korea and very probably Taiwan, the returns to investment were exceptional in the period 1963-73. This was because industrial capital was combined with a lot of labour. This in turn occurred because reforms to the system of incentives permitted these countries to realise their comparative advantage in labour intensive manufactures – a comparative advantage that was reinforced by a hard-working, docile, moderately educated labour force."*

That is a simple enough strategy to follow. It is one mainland China has increasingly adopted over the past 15 years, with remarkable success, thanks in no small measure to the import of entrepreneurship from Taiwan and Hong Kong. It has followed these policies under Deng Xiaoping precisely because of the example of "the four little dragons" – Hong Kong, Singapore, South Korea and Taiwan. Of these, Taiwan was probably the most influential, both because of the rivalry between the communist rulers of the mainland and the nationalist rulers of Taiwan and because of Taiwan's status as a Chinese province.

Trade is the central feature. Taiwanese exports plus imports equalled 74 per cent of GDP in 1994, against 47 per cent for the UK. Being a small, resource-poor country, Taiwan would enjoy little more than a subsistence standard of living if it were unable to trade.

The essence of Taiwan's strategy was therefore to allow the Taiwanese to exploit the gains from trade. For those desperate to find an active government behind any and every economic success, this is an "export promotion strategy". But, as Professor James Riedel of the Johns Hopkins School of Advanced International Studies in Washington DC points out, this "strategy" consisted merely of removing obstacles to exporting that the government put in the way in the first place.

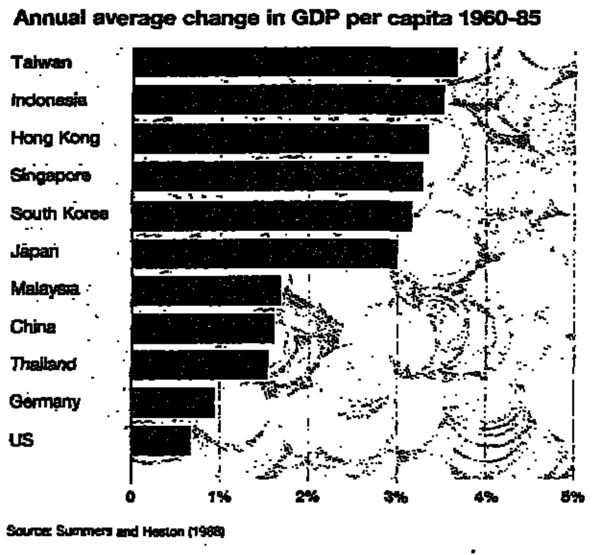
Revisionist scholars have challenged the orthodox view of the roots of east Asian success. They note that the South Korean and, to a lesser extent, Taiwanese governments have intervened in their economies, distorted capital markets and picked winners, and argue that this is why they were so successful. A recent article by Professor Dani Rodrik of Columbia University even claims that exports grew automatically in the 1960s once the governments of Taiwan and South Korea had succeeded in encouraging firms to invest.** Such expansion of exports, following a government-induced rise in investment, would be a miracle, because unparalleled elsewhere.

None of these convoluted explanations is necessary, since Taiwan's is a perfectly simple story. Over a long period, its government did something so remarkable that it deserves the label "miraculous": it failed to do anything seriously stupid. Its fiscal and monetary policies were conservative. Its trade policies became steadily more liberal. It protected property rights.

Taiwan did not need to be big and powerful. It did not need to be a member of international organisations. It did not need to be a net importer of capital. All it needed to do was allow its inhabitants to exploit the economic opportunities around them and, being Chinese, they did so spectacularly. That is what mainland China has to do, too. If it does, it will become an economic colossus. Indeed, Taiwan's is the only sure route to prosperity for any society, anywhere.

*Ian Little, Picking Winners: the East Asian Experience (London: Social Market Foundation, 1996). ** Dani Rodrik, "Getting Interventions Right: how South Korea and Taiwan grew rich," Economic Policy, April 1995.*

The best of the best



Consumers put the bite on burgers

McDonald's and Burger King, the UK's two leading hamburger chains, are standing by British beef. They say the prime cuts they have always used for their burgers are perfectly safe for human consumption.

Certainly, both have always shunned offal and meat mechanically flailed from carcases – beef byproducts linked to mad cow disease and Creutzfeldt-Jakob disease in humans.

Yet, by Saturday, both will have stopped using British beef in their UK restaurants. Their decisions bear testament to the power of consumer pressure to make companies behave in seemingly irrational ways.

What is more, it is clear to crisis management consultants that McDonald's – which pulled British beef from its menu last Saturday, a week ahead of its rival – made the correct decision.

"From a PR point of view, McDonald's did absolutely the right thing," says Mr John Stonborough , founder of Wallborough, a London firm that helps guide companies through crises. "It was an absolute non-starter to try to get a rather complicated message across that this piece of meat might be all right but that piece wasn't. Raw consumer pressures have completely superseded science."

McDonald's had tried for three months to convince consumers its beef was safe. After the mad cow debate escalated in December, it put leaflets in its restaurants explaining which parts of the animal its meat came from.

But, once the government admitted last Wednesday that there could be a link between BSE and human disease, confidence crumbled.

McDonald's declines to say how fast hamburgers sales dwindled, but tills, customer hot lines, its 660 UK restaurant managers and hastily organised opinion polls all told the same story: consumers cared not which part of the animal the meat came from – only which country.

With consumers "bewildered" by the scientific debate, only complete substitution of continental beef would reassure them, McDonald's said. Thus, for four days, the US-owned group will not serve a single burger in the UK until the first burgers made from imported beef are available on Thursday. McDonald's was joined yesterday in its ban by Wendy's and Wimpy, two much smaller rivals.

While McDonald's responded to the emotion of the moment, Burger King, a subsidiary of Grand Metropolitan, the British food and drink multinational, has tried to stick to rational science and rational consumerism. It acknowledged "the apparent lack of consumer confidence in British beef", but said it was waiting for more information from the government "so that we can make an informed decision".

Only yesterday did Burger King decide to fall partly into line with McDonald's. It decided to stop using British beef – but not until Saturday, when it will have alternative supplies. Until then, signs in its restaurants will advise customers of the hamburgers' British origins.

"It is up to consumers to decide whether they want to eat it," the company said.

McDonald's more drastic strategy will cost it more in the short term while it scrambles to substitute other products, such as fish and vegetable burgers, and to import continental beef.

In the longer term, it should benefit from taking the initiative. "It was a very shrewd act to show consumers and parents leadership," one industry commentator said. "They could come out of this with an increased market share." McDonald's already claims some 70 per cent of sales by UK hamburger chains.

Industry observers believe at least two other factors besides consumer confidence lay behind McDonald's decision to be the first chain to ban British beef. Most pressing of them was the legal ramifications of serving such meat.

"US companies are neurotic about product liability," one said. It seems implausible that anybody could prove in court that a steady diet of McDonald's British beef hamburgers ultimately caused CJD in a human. But it does seem plausible that US lawyers urged McDonald's UK subsidiary and its American parent to act swiftly to minimise their exposure.

Public image might have been a second factor. "McDonald's has an image problem generally," a crisis consultant said. "It is already fighting off the back foot" because of the so-called McLibel suit in the UK High Court in which the group has brought libel proceedings against two environmental activists who had challenged its practices. The company is defending its environmental record, employment practices and the nutritional value of its products. The case has lasted almost 21 months and judgment is expected shortly before the end of the year.

Drawing further lessons about crisis management from events of recent days is hard. It is rare that companies have to respond to – and can heap all the blame on – outside forces. Usually, they are responding to crises of their own devising, which only makes it more difficult for executives to decide when to cut their losses.

But one clear lesson is the need to take quicker and bigger actions than might seem justified at the time. McDonald's might be accused of exacerbating consumer fears, but it did cut its losses swiftly. And, as a bonus, it got a two-day headstart on Burger King lining up fast-tightening foreign beef supplies.

Roderick Oram

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Greater value in enlightened beef intervention

From Mr Clive Bates.

Sir, Your advice to ministers ("Mad cows and ministers", March 21) ought to include a recognition of the commercial value of enlightened government intervention. It is difficult to imagine consumers relishing the prospect of beef reared on waste offal.

Had the Ministry of Agriculture Fisheries and Food championed consumer interest, it would never have permitted this practice. However, once BSE emerged, the government had a responsibility to anticipate the plausible evolution of scientific understanding and take action that prepared for adverse developments *before* conclusive evidence was available. There was enough reason for concern in the late 1980s to justify eliminating BSE from the British stock by slaughtering all the infected herds. Instead, ministers used the uncertainties to justify what have turned out to be empty reassurances. Had the government intervened responsibly, the beef industry would not be in free-fall today.

Government intervention may sometimes raise costs, but it is a form of insurance that protects whole markets from the threats that lie ahead. The interactions of individual consumers and producers are unlikely to achieve the same effect.

Clive Bates,
42 Allerton Road,
London N16 5UF, UK

Animus not well directed

From Dr Leslie Palmier.

Sir, In his article on UK government ministers sheltering behind science, Joe Rogaly has allowed his anti-establishment animus to run away with him ("What is Mr Dorrell for?", March 23/24). Lord preserve us from the day when ministers of the crown set aside scientific opinion in favour of Mr Rogaly's "common sense", and the sun starts rotating round the world again.

Leslie Palmier
9 St Catherine's Close
Bath, BA2 6BS,
UK

Inflated view of a government agency

From Mr David Simpson.

Sir, In his article "Problems of uncertainty" (March 19), Martin Wolf writes that the "most intellectually exciting aspect of Keynes' vision was his emphasis on pervasive uncertainty about the future and the consequent difficulty of securing co-ordination of the plans of millions of producers and consumers in a modern economy".

While this interpretation of Keynes is entirely consistent with the view of the market economy espoused by the modern Austrian school, and by Hayek in particular, it is not compatible with modern macroeconomic theory. By dealing exclusively with aggregates and by assuming that all market participants are perfectly informed at all times, macroeconomic theory simply ignores the problem of co-ordination altogether, a problem which, *inter alia*, gives rise to feelings of job insecurity.

Wolf continues: "Money, being created by the market, is simply not a precise and targetable quantum." Indeed. But this statement applies with equal force to inflation, nominal national income, or any other macroeconomic aggregate.

The suggestion that responsibility for achieving a target for inflation should be delegated to a government agency might be a "practical response" in a world where such an agency is assumed to be perfectly informed.

But in a modern market economy, where information is decentralised and uncertainty is pervasive, an agency of government is no better informed than the rest of us.

David Simpson,
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Proposal of no benefit to US agriculture export effort

From Roger J. Baccigaluppi.

Sir, US agricultural exports surged to $53bn last year – an all-time record, 18 per cent ahead of 1994 ($43.5bn) – and are on their way this year to a new record of perhaps $60bn, according to recent US Department of Agriculture estimates. Not only does this bring more income to the US, and create more jobs in agriculture and the many suppliers to this industry, but it has also been a significant factor in reducing the US balance of payments deficit.

Perhaps agriculture has been too successful. Now, well into 1996, we see Congress working on what should have been the 1995 farm bill. Now it's called the Freedom to Farm Act. Buried in the Senate version of this oddity is an amendment offered by Senator Richard H. Bryan to change dramatically how funds are used to promote US agricultural products overseas. "It sure ain't broke," some senators must be saying, "but let's fix it!"

The Market Promotion Program has been hugely successful by any objective measurement, but election year politics seem again to be thwarting what is right, appropriate and good for the US.

At one time, more than $325m was being expended in export markets through this programme and its predecessor, the TEA (Targeted Export Assistance) programme.

The Bryan amendment reduces the Senate version of the bill to $70m (nearly one-third of expenditure just a few years ago) and further stipulates that only organisations recognised as small business concerns or co-operatives are entitled to these funds for brand advertising.

Proponents of the amendment are happy because it keeps the so-called "giants" – McDonald's, Tyson, RJR, Gallo, Frito-Lay, – from getting US funds to promote their agricultural products overseas. Righteousness about reduced funding and allowing only what the Senate considers to be "small businesses" to participate demonstrates a huge void in understanding of how agriculture works, how the US competes in the world, and why the government chose, in the first place, to help agriculture export its products.

As to how agriculture works, let us use Gallo wine as an example. Clearly, it is the undisputed leader in the US and probably the largest wine producing company in the world. That wine comes from grapes grown in Gallo-owned vineyards as well as hundreds of vineyards owned by small farmers who would meet the definition of small business.

However, the Senate bill, as written, would force each small family farmer to build and operate a winery in order to participate in the international promotion programmes. Then it would force them to compete overseas with Gallo and others for a share of the market.

It is far more efficient to let the undisputed world leader produce and sell the wine – and let the farmer continue to grow the wine grapes. The facts of the matter are that the small farmer is in no position to.

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COMMENT & ANALYSIS

FINANCIAL TIMES
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Tuesday March 26 1996

Germany opts for the known

Germany's voters have yet again confounded the pundits and the pollsters. Instead of punishing Chancellor Helmut Kohl and his coalition partners, the Free Democrats, for record unemployment and languishing growth, they have clobbered the opposition.

The plight of the poor Social Democrats seems to know no end. In Sunday's three important state elections, they lost votes on the left to the environmentalist Greens, and on the right to Mr Kohl's Christian Democrats. As for the FDP, the party has hauled itself back from the brink of extinction, after a string of disastrous electoral defeats, with a vigorous policy mix of tax-cutting, deregulation and an assault on bureaucracy.

The first lesson to be learned seems to be that German voters are fundamentally conservative, especially when their prosperity is under threat. With one in nine out of work nationwide, a chill wind is blowing even in wealthy Baden-Württemberg, home state of Daimler-Benz. Instead of revolting, they have clung to the predictable and familiar – above all, the reassuring figure of Chancellor Kohl – and shunned the uncertain future offered by the SPD under the mercurial Oskar Lafontaine. Even the FDP has scarcely reinvented itself, but chosen merely to stress its liberal economic credentials rather than its traditional commitment to civil liberties.

Mr Lafontaine has clearly failed to give the SPD new focus since he displaced the luckless Rudolf Scharping as leader last year. His party's attempt to woo popular support by calling for the postponement of European economic and monetary union, and the single currency, backfired. By calling into question its long-standing commitment to European integration, it appeared to be opportunist.

In a state like Baden-Württemberg, which relies on its exports, there are also growing doubts about the wisdom of an ever-stronger D-Mark: the euro no longer looks quite so unattractive. Mr Lafontaine's timing was all wrong.

In the prosperous south, the SPD lost blue collar votes to Mr Kohl's CDU as well as to the far-right Republicans. In the north, it lost women's votes, and some of its middle-class support, to the Greens. The latter have shown they cannot be ignored as potential coalition partners in state governments.

In some ways, however, it is the revival of the ailing Free Democrats which is the most reassuring message of these elections. For Germany would be much the poorer for the loss of its true liberal conscience. That was precisely the fate threatened by the failure of the FDP to win the minimum five per cent of the votes needed for seats in state parliaments, in no fewer than 12 elections. A strong voice for deregulation and against lower taxation is always welcome.

Aegean glimmer

Mesut Yilmaz, the new Turkish prime minister, is to be congratulated on making the first move in an effort to improve Greek-Turkish relations. Relations between these two nominal allies have, for too long, been unnecessarily bad. As recently as the end of January, they very nearly went to war for possession of a tiny islet in the south-east Aegean.

That incident, which occurred on Costas Simitis's first day as Greek prime minister, appeared almost to have been set up to humiliate him. Greece had to withdraw troops from what it firmly believes is its own territory. Tansu Çiller, the Turkish prime minister, enjoyed a triumph in the Turkish media. But such victories are not as cheap as they may seem at first sight.

Turkey is clearly the stronger power in military and geopolitical terms. Its undoubted strategic importance assures it, most of the time, of US support. But Turkey's interests are much more directly affected by relations with the EU: not only its economic interests but also the Turkish elite's historic ambition to affirm the country's European identity. And here, however much Turks may dislike it, Greece has the advantage, simply by virtue of the fact that it is already an EU member.

Last year, Greece was able to obtain a starting date for membership negotiations with Cyprus from its EU partners, as the price of its consent to the customs union between the EU and Turkey. This year, to express its displeasure over the islet episode, Greece has been blocking EU aid, including European Investment Bank loans, which Turkey needs to help its industry adjust to the customs union. Mr Yilmaz's carefully worded statement on Sunday, that Turkey wanted disputes in the Aegean to be "settled by peaceful means in accordance with international law", appeared designed to meet Greek demands for a Turkish pledge not to use force, and to respect international treaties, ahead of today's meeting between Turkish and EU ministers in Brussels.

Yesterday, a national holiday in Greece, the Greek government appeared to have been caught off balance and gave only a lukewarm response. Mr Simitis is obviously in a delicate position, especially now that his predecessor, Andreas Papandreou, is out of hospital and, quite possibly, on the lookout for opportunities to make trouble.

Mr Yilmaz, too, has limited room for manoeuvre, as temporary leader of a minority government. But he has made a bold and imaginative opening move which deserves to be taken seriously. Both sides need the help of third parties in building confidence. And, since the US is the object of Greek suspicions while the Turks understandably regard the EU as biased in Greece's favour, it is a case which cries out for transatlantic co-operation.

Mutual friends

The advertisements for Halifax, the UK's biggest building society, urge us all to "get a little extra help – from the Halifax". Clerical Medical and General, the UK's sixth largest mutual life assurance group, has taken up the offer, in assenting to Halifax's £800m takeover bid, subject to the approval of its policyholders. The strategy is debatable, although more on Halifax's side than Clerical Mutual's. The plan also raises wider, more troubling questions about policyholders' rights and ownership of mutual reserves.

The deal consists of two payments: £790m to the Clerical Medical with-profit fund, and £70m as shareholder capital. The 700,000-odd policyholders who mutually own the group will benefit from £111m in special bonuses from the with-profit fund, plus £160m from existing surpluses to increase the ultimate value of their policies.

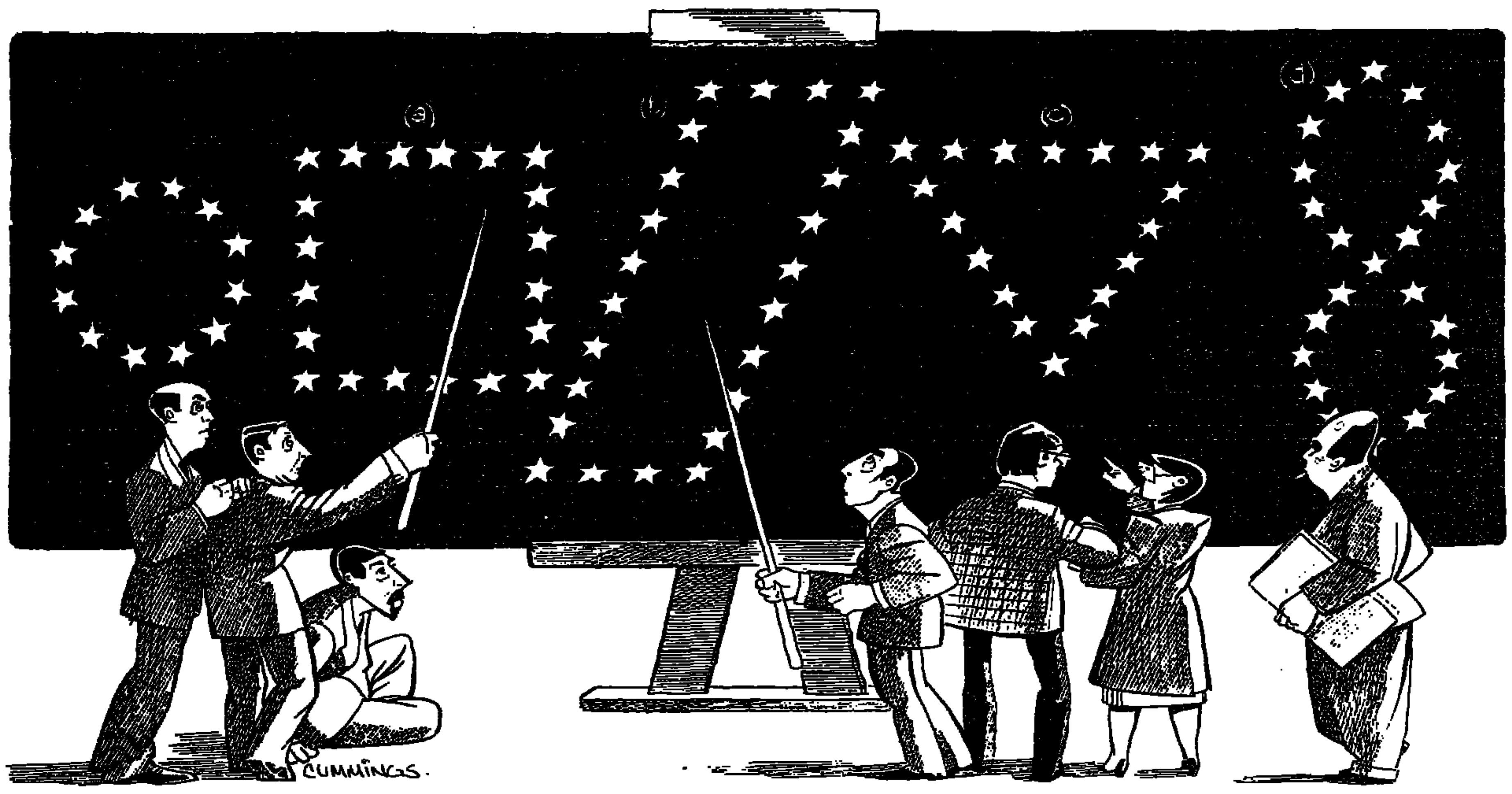
The rationale for the deal is that both institutions are under ferocious competitive pressures in their traditional markets. The costs of each are largely fixed, squeezing returns. Halifax, which is due to convert to a bank next year, has reckoned, like its rivals, that there will be little growth in the housing market over the next few years. It has looked instead to diversity within the long-term savings market. It plans to distribute Clerical's products through its own retail network, and to gain access to Clerical's contacts with independent financial advisers, who supply 90 per cent of Clerical's business.

Its hopes of synergy may be realised. But integration of two distribution networks, let alone two cultures, is not easy. It is striking that some of the most successful cases of banks owning life assurance companies have not resulted from takeovers. TSB has had notable success in selling its home-grown life assurance to its existing banking customers. Attempts to build bridges between established insurers and deposit taking institutions have often been less successful.

The takeover – together with the rush by many groups to surrender their mutual status – also raises deeper questions about rights to mutually-owned reserves. At present, holders of with-profits policies have claim to the reserves. But in such deals, there is worryingly little transparency about the allocation of surpluses in the fund between present policyholders and future shareholders.

It is almost impossible for policyholders to establish the value to which they are entitled. That is simply one of several legitimate complaints; policyholders frequently suffer large penalties if they want to terminate a policy prematurely, even on the grounds of poor performance.

In the case of Clerical, policyholders may simply have to accept the group's indications that this deal was the most financially attractive option available. It would have been preferable for them to have the information to make that judgment themselves.



New shapes in the stars

Changes in EU decision-making and institutions will be on the agenda at the Turin conference that opens on Friday, says **Lionel Barber**

IGC 1996

On Friday, in a refurbished factory in Turin, the 15 heads of government of the European Union gather for the ceremonial launch of negotiations on the future shape of the EU. The intergovernmental conference, likely to last at least 15 months, will review the operation of the 1991 Maastricht treaty, signed in a mood of near-euphoria after the fall of the Berlin Wall.

The conference is billed as an equally historic opportunity to shape Europe's future for the 21st century, but the outcome is likely to be less momentous. The public attitude to the Union has turned sour as unemployment has risen beyond 20m and most observers in Brussels believe it is premature to pass judgment on the treaty – let alone contemplate far-reaching revisions.

The treaty was the result of an elaborate compromise between the UK, France and Germany on the shape of the EU. A fixed timetable was agreed for economic and monetary union (Emu) by 1999. The European parliament extended its powers to block or amend EU laws. But at Anglo-French insistence, matters of internal and external security remained subject to loose co-operation between national governments.

However, monetary union among the stronger western European economies – alongside enlargement to admit the countries of eastern and central Europe – will dramatically sharpen the sense of diversity inside the EU. Calls are increasing for new, more flexible forms of integration: the EU's structures have changed little since the six founder members – France, Germany, the Benelux countries and Italy – created the original European Community in 1958.

Two issues are likely to be central to the discussions at the intergovernmental conference. The first is whether to anticipate the impact of monetary union and enlargement by planning far-reaching changes in decision-making and institutions – a position argued this week in Le Monde by Mr Jacques Delors, president of the European Commission at the time of Maastricht. The other is how to effect any changes that are necessary without damaging the interests and rights of the existing members of the EU club.

The conference faces divisions over methods and political philosophy along much the same lines as in the Maastricht negotiations.

The maximalist camp is led by Chancellor Kohl. He views Maastricht as an unfinished symphony, a prelude to the creation of a full-blown political union which will accompany monetary union. Both arrangements, he insists, are necessary to anchoring a united, democratic Germany in Europe.

Mr Kohl's prescriptions are a stronger European parliament to act as a democratic counterweight to the decision-taking Council of Ministers. He wants more majority voting as a matter of principle to pave the way for enlargement to central and eastern Europe, Germany's strategic imperative.

On internal security, Germany wants a "single integrated space" which would guarantee freedom of movement of EU citizens, while forging a joint approach among member states on asylum, visa, and immigration matters, as well as beefed up co-operation against terrorism, organised crime and drug trafficking.

Most member states agree with Mr Kohl's argument that the area of internal security needs an overhaul. Other ideas for achieving this include reducing national veto rights, giving the European Commission a role in proposing changes, and creating new legal instruments to replace cumbersome international conventions which take years to ratify.

The British, however, take a fundamentally different view of European integration. Mr John Major, UK prime minister, argues that post-Maastricht Europe is dancing to a very different tune. No one talks any more about a United States of Europe. The supranational European Commission is in retreat. The nation state lives on.

The British attitude towards reforming decision-making on internal security is minimalist – as is the government's general approach to the conference. Mr Major's goal is containment. No extension of majority voting; no new powers for the European Parliament; no more EU-wide areas of responsibility. He wants limits on Union action and curbs on retrospective judgments from the European Court of Justice.

Talk of a crisis in the conference negotiations is widespread – many observers forecast it will break in the autumn. One senior Brussels official predicts that Britain's partners will then simply negotiate among themselves, waiting for a more amenable administration after the UK general election, to be held at the latest by May 1997.

"The Major government is a hopeless case, a bit like a dying patient in a hospital," says one Brussels diplomat. "You can give him as much booze and cigarettes as he wants – it won't make any difference." Like others, he is careful to avoid placing too many hopes on a change of British policy under any future Labour government led by Mr Tony Blair.

In the conference negotiations, much is likely to depend on President Jacques Chirac of France, who has been sending flirtatious signals across the Channel to the British. His mercurial brand of neo-Gaullism makes him a more unpredictable partner for Mr Kohl than former President Mitterrand. But Mr Chirac's interest in the British connection looks more like an attempt to placate Eurosceptics in his own party than a fundamental break in the Paris-Bonn axis.

UK intransigence is fuelling the campaign for more flexible forms of integration. Mr Major *himself* set out the case for so-called "variable geometry" in a speech at the University of Leiden 18 months ago. Since then, France, Germany, the European Commission and the Benelux countries have accepted the idea of certain countries moving ahead of the rest to co-operate in certain select areas as a means of avoiding paralysis in decision-making in a wider Union.

This approach has already been adopted in conceding Britain's opt-out from the social chapter of the Maastricht treaty covering labour legislation. And ten countries in the Schengen grouping have scrapped border controls between them.

However, those involved in the preparation of the conference agenda agree the EU would fragment if variable geometry were extended to certain core areas. These include competition and environment policy; the single market; and the "four freedoms" covering movement of goods, capital, services and people. There is also agreement that where some countries move ahead of others, they should be required to use the EU's present institutions rather than forming separate clubs.

But within these constraints, new ideas are circulating to create a "pioneer system", where groups of countries could begin to work more closely together without being held back by others. The Germans are floating "constructive abstention", where no country would be obliged to provide troops or police for joint actions against their will. The price for "opting out" would be political and financial support.

Another idea is to create a separate legal structure covering internal security if Britain continues to block a role for the European Court of Justice.

However, such innovations will come to nothing unless EU leaders can settle a more fundamental dilemma which has existed since the creation of the original European Community: the balance between small and large member states. Smaller countries such as Belgium, the Netherlands and Luxembourg, as well as newcomers such as Ireland and Portugal, retain the right to appoint an EU commissioner, and to take their turn on the rotating EU presidency for six months. These countries also have a disproportionately higher number of votes in the Council of Ministers: Luxembourg (population 450,000) has two votes, while Germany (population 80m) has 10 votes.

Larger member states, led by Britain, France and Spain, are pressing for the balance to be reweighted according to their size and population. They point out that under the present system, a coalition of countries could outvote big countries representing 40 per cent of the EU population. In a Union of 28 members, a qualified majority could outvote Britain, France, Germany and Italy, while some of the former communist states could be enough to form a blocking minority.

The issue of voting weights and majority voting has the capacity to wreck the conference. One senior EU diplomat concludes that, with the smaller countries unwilling to renounce their rights, "fundamental institutional reform will not happen at the IGC".

One further reason is that enlargement – the real driving force behind institutional reform – could take longer than expected. The Mediterranean countries are unlikely to ratify the conference's results until they have a clear commitment on a new financing package to cope with the costs of extending generous EU policies such as regional aid to the eastern countries, says a Commission official.

The temptation, therefore, will be to "muddle through" in 1996-97, postponing many of the tougher choices until three big decisions – enlargement, the single currency, and a new budget deal – converge in 1998. It is a big gamble, but the EU usually responds best in a crisis.

· OBSERVER ·

Crumbs at the table

■ Queen Elizabeth II arrived in Warsaw yesterday for the first visit to Poland by a British monarch. Her domestic experience of dealing with difficult customers might come in handy.

Lech Walesa, Poland's mercurial former president and Solidarity leader, has already refused a royal invitation to a banquet today at the Bristol Hotel.

Not that he's got anything against Britain's Queen – just that going would require him to shake hands with Polish president Aleksander Kwasniewski, who beat Walesa in last December's presidential election. Walesa is not yet in the mood for such a gesture.

The Queen's protocol aides have instead agreed that she will see Walesa privately at tea time today – a gesture reminiscent of the bad old days, when official visitors saw the (communist) authorities in public before discreet meetings with the (dissident) opposition.

A further tricky protocol problem concerns Jozef Oleksy, the former prime minister who resigned last December after being accused of having been a spy in the pay of the Russians.

He's now head of the former communist SdRP, which leads the ruling coalition. If the form was being followed, he might have anticipated an invite to something, at least a cup of tea.

No such luck: not even a biscuit.

Noblesse oblige

■ Sweden's new finance minister, Erik Asbrink, is taking a mammoth pay cut by leaving the business world.

His most recent post was managing director of the state-owned property group Vasakronan, which owns a lot of municipal property. According to Aftonbladet, the Swedish daily newspaper, Asbrink's move to the world of politics means he will be around SKr1.2m a year worse off.

The paper quotes Asbrink's annual basic Vasakronan salary as being SKr1.72m, considerably augmented by various benefits and seats on several other company boards, giving a total annual income of nearly SKr2m. As finance minister he'll get SKr720,000.

He doesn't sound worried: "To be finance minister is a privilege. For me it would have been practically unthinkable to say no." Rather sweet, really.

Gordian knot

■ OTE, Greece's telecoms monopoly, has been polishing its image ahead of this week's flotation of a chunk of its equity on Athens' stock exchange.

There's been an advertising campaign telling potential shareholders that OTE is Greece's most profitable company. And the board of directors has been telling foreign fund managers that politicians no longer interfere.

Which will make a nice change. Petros Lambrou became OTE's managing director when the Panhellenic Socialist Movement (Pasok) returned to power in 1993 under Andreas Papandreou, a close friend of Lambrou – who also happened to be Pasok's treasurer.

When OTE started to restructure ahead of the flotation, Lambrou resigned from his party positions. With Papandreou off the political scene – convalescing after a four-month illness that triggered his resignation in January – Lambrou has distanced himself further from party politics. These days, his private-sector experience in the 1970s as an executive at Barlos, a Greek bauxite-mining company, is mentioned more often than his stint as a full-time Pasok official.

My word is my 007

■ Espionage and banking are two sides of the same coin – lots of secrecy, bureaucracy thriving behind a veneer of efficiency, mistakes coming to light years later. No surprise then that the Canadian Bankers Association has hired a former spymaster as its new president.

Raymond Protti was in charge of the Canadian Security and Intelligence Service during 1991-94, but the banks appear to have chosen him as their chief lobbyist less for his code-breaking skills than his virtually unrivalled knowledge of how Ottawa works. Besides his stint at CSIS, Protti has held several senior civil service jobs, most recently as top mandarin at the agriculture department.

The big banks have been looking for someone who can push the right buttons in the run-up to next year's review of Canada's financial services laws. Consumers and small business want the banks cut down to size; government recently obliged by saying banks would not be allowed to sell insurance policies in their branches. Protti will soon discover that winning sympathy for powerful, profitable banks is just as tough as cracking enemy secrets.

Sacrificial lamb

■ In the Middle East *The Jordan Times* newspaper reports that Rajai Saeed has beaten bureaucratic objections and managed to register his new son as Yitzhak Rabin, after the assassinated Israeli leader, as a gesture of support for peace.

Impossible to criticise the motive, but one has to sympathise with the poor mite so dubbed. Unless things change very much, he won't exactly be first choice for the football team.

The Financial Times

100 years ago

Chilian finance

Even the best regulated nations, Great Britain not excepted, have to put up with a deficit now and then, and an occasional hiatus between revenue and expenditure need not be looked at too seriously. But a tendency towards extravagant expenditure has for some time been growing in Chili, not so much through the fault of the Executive as through that of Congress itself. Under the pretext of a zeal for charity and education – both, of course, excellent objects in their way – a number of supplemental measures have been passed which have helped to swell the expenditure for the year, and it is to be feared that the main object of the representatives who advocated these disbursements was to secure popularity and catch votes.

50 years ago

Rand strikers back at work

All the 15,000 workers affected by the dispute between miners in the Witwatersrand, the gold mining district in the Transvaal, and the Mineworkers' Union were back at work yesterday on 46 gold mines. The mines resumed full operation after an interruption of from three to ten days.

FINANCIAL TIMES
Tuesday March 26 1996

Judges to review controversial language ruling

US Supreme Court to probe English-only law

By Patti Waldmeir in Washington

The US Supreme Court yesterday stepped into an election-year controversy by deciding to examine whether it is constitutional for a state government to demand that its employees speak only English while working.

Like flag burning, the "official English" battle is largely symbolic. But it has raised high passions in the election campaign, with both Senator Bob Dole, the presumptive Republican presidential nominee, and his only remaining challenger, conservative commentator Mr Pat Buchanan, arguing that English should be declared America's official language.

The Supreme Court will decide on the constitutionality of an Arizona law which bars the use of any language other than English by state employees performing official duties.

The law was challenged in federal court in 1988 by a bilingual state employee who said it prevented her from speaking Spanish to Spanish-speakers when performing her job of handling medical malpractice claims against the state.

A federal judge ruled that the Arizona "English only" measure, approved by voters in 1988, violated free speech rights under the US constitution's first amendment. His ruling was upheld by a three-judge panel of the US appeals court.

The full appeals court voted 6-5 last year to strike down the law, saying it "obstructs the free flow of information and adversely affects the rights of many private persons by requiring the incomprehensible to replace the intelligible."

The Supreme Court will now review that decision, after an appeal was filed by a group called Arizonans for Official English.

Arizona's law is one of the most restrictive but not the only official language law on state books. At least 20 states have constitutional amendments or laws designating English as the official state language.

The "official English" campaign taps the same vein of economic insecurity and resentment mined by Mr Buchanan's campaign for the Republican nomination.

Some Americans who feel threatened in their jobs by foreign competition have chosen the issue to demonstrate their anger, while others use it to show their resentment at measures, including affirmative action, which favour minorities over white males.

Opinion polls show that Americans perceive themselves to be besieged by minorities and immigrants out of all proportion to the actual figures. Figures published in the New York Times show that many white Americans believe less than half the population is white, whereas the true figure is 74 per cent. Many whites also believe that a quarter of the population is black, whereas the true proportion is half that.

Murdoch's Star TV targets Chinese market

By Tony Walker in Beijing and John Ridding in Hong Kong

Mr Rupert Murdoch's Hong Kong-based Star satellite television service unveiled a new broadcast network yesterday aimed at improving its access to the Chinese market.

But Beijing officials were sceptical about Mr Murdoch's latest attempts to secure a stronger presence on the mainland, where he has been frustrated in his efforts to develop a subscription cable television service.

A representative of China Central Television, the state broadcasting organisation, said Chinese TV regulators had "no knowledge" of Mr Murdoch's plans with its Hong Kong partners for a new service.

Star TV said its three-party venture, to be called Phoenix Satellite Television Company, would operate Chinese-language commercial satellite services across Asia.

Star TV and one partner, Today's Asia, would each hold 45 per cent equity in the venture. China Wise International, the third partner, would account for the remaining 10 per cent.

Media analysts said it was not clear whether Star TV's tie up with its Hong Hong partners would advance its ambitions in China. It is trying to persuade the authorities to grant Star TV access to China's rapidly expanding subscription cable services.

Star TV is losing about $100m a year and is finding advertising revenues thin for its Asia-wide services. It sees cable subscription, especially in China, as critical to halting losses.

In Hong Kong, a Star TV representative said the company was "confident" its new partners' "relationships and connections" would help the network realise its ambitions in China.

Mr Murdoch paid about $525m for Star TV in 1993 for 63.5 per cent of the company, and has since added to his stake. The network is crucial to News Corp's global television ambitions.

Star TV said the Phoenix service would be broadcast on both AsiaSat I and AsiaSat II. Broadcasts would begin this weekend and would replace the existing Star TV Chinese channel. The Phoenix service would eventually provide three channels, offering sport, popular entertainment and films to Chinese-speaking viewers across the region.

Mr Gary Davey, Star TV's chief executive, said: "We have always hoped that when the time was right Star would play a leading role in Chinese-language commercial television services."

Star TV's partners are not prominent in the region's media. Today's Asia was founded by Mr Chan Wing Kee, a textile manufacturer who is now developing media interests.

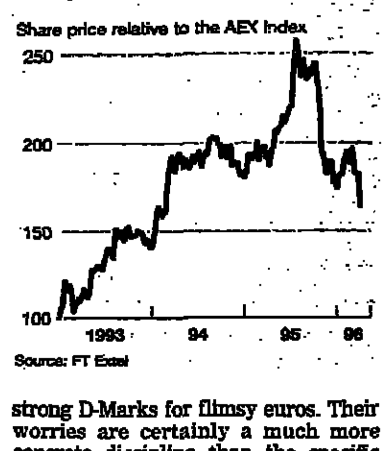
Falling Star's new move, Page 6

THE LEX COLUMN

Philips unplugged

FT-SE Eurotrack 200: 1679.7 (-5.4)

Philips



Source: FT Extel

The problems that provoked Philips' profits warning yesterday should have come as little surprise. Weak consumer electronics markets in continental Europe are hardly a new phenomenon, and slower growth in the personal computer market has been well documented. It is therefore tempting to suggest that the 11 per cent drop in Philips' shares is a dramatic over-reaction, particularly since other European semiconductor manufacturers' shares were unaffected.

Nonetheless, the current outlook is bleak and Mr Jan Timmer, Philips' president, has some pressing problems to resolve before he bows out in October. Rising stock levels on a seasonally adjusted basis provide cause for concern, and the company needs to do more to rationalise its manufacturing base given the highly competitive market.

There is an easy option for Mr Timmer if he wants to go out on a high note. If one subtracts the market value of listed subsidiaries and associates, Philips is trading on around three times prospective 1996 earnings, even after sharp cuts in forecasts yesterday. By demerging its 75 per cent owned record business PolyGram, which offers no material synergistic benefits, this valuation would inevitably improve. And the demerger of the mature but cash-generative lighting business could also enhance shareholder value. Otherwise, the shares will remain at a discount until the management demonstrates that its restructuring of troubled German subsidiary Grundig is on target and that the consumer electronics division is capable of sustained profitability.

Emu

The joyous response of the German bond market to this weekend's state elections is understandable – but short-sighted. Investors were relieved at the clear strengthening of Chancellor Helmut Kohl's position. Some even hope that it will fortify him to take the painful decisions needed to cut the country's budget deficit. This will not be easy, since the opposition Social Democratic party still has enough power to be a serious headache. Moreover, the Free Democrat party, Mr Kohl's coalition partner, attracted an unexpectedly large share of the vote. This is likely to strengthen its hand in keeping taxes down, closing off one obvious opportunity for deficit-cutting.

Much the biggest worry for bond-holders, though, surrounds European monetary union. It is often argued that Germans will refuse, when it comes to the crunch, to swap their strong D-Marks for flimsy euros. Their worries are certainly a much more concrete discipline than the specific targets in the Maastricht treaty. But Sunday's election result calls into question whether even German public opinion is that big a hurdle. At any rate, the SPD's attempt in one state, Baden-Württemberg, to campaign on the threat to D-Mark presented by Emu flopped. This makes it less likely that the opposition party will pursue an anti-Emu line in future.

This, combined with the confirmation of Mr Kohl's political clout, increases the likelihood that the German people will be persuaded to accept Emu, even if the Maastricht criteria are not met to the letter. For German bond-holders, this is not much of a cause for celebration.

Halifax/Clerical Medical

The victory of the Halifax Building Society in the bidding contest for Clerical Medical is unexpected. Unlike other bidders, Halifax cannot slash costs by shedding jobs in overlapping businesses. A bidder with a cost-cutting agenda might have been expected to pay more: that leaves the lurking suspicion that Halifax has overpaid.

Clerical Medical has a good investment record and a strong name, but it lost money on the writing of new business last year. Furthermore, it is short of capital – it has had to sell equities in order to meet solvency requirements – so despite its contention that it is selling from a position of strength, Clerical was under some pressure to do a deal. And the group must be pleased with the deal it has done, which allows existing senior management to hold on to their jobs and keeps the company and the brand intact, under the Halifax umbrella.

Clerical has undoubtedly benefited from a seller's market: potential bidders for life assurers include Abbey National, Woolwich, Prudential, NatWest and Sun Alliance.

That said, the price tag of £800m does not look excessive. It represents a premium of £140m above the value of the funds. But there will be some cost savings. Halifax Life currently farms out its administration; bringing that in-house is expected to save an estimated £10m or more a year. The internal review under way at Clerical should yield further savings.

The question is whether Halifax should have waited for larger prey. But prices are likely to go up, as competition for the few reasonably large mutuals currently on the block intensifies. And the deal is strategically sound. At flotation, Halifax will be a broad personal financial services company, well placed to adapt to a rapidly shifting personal savings market.

Beef

If the British government manages to avoid slaughtering large numbers of cattle, the scare for the gilts market will take on much more manageable proportions. Without the need to import huge volumes of dairy products, the effect on inflation would be muted; it could even be benign. Exports would be hit, but this is as likely to be good as bad for gilts. Government borrowing would probably still rise: propping up beef prices will cost money, and only part of the cost is likely to be shared by the European Union. But the damage to government finances would be far smaller than if parts of the herd had to be culled.

The markets, though, are unlikely to be in a hurry to sign up fully to this rosy scenario. For a start, having admitted that the problem is serious, the government – apparently caught on the hop – now gives the impression of not wanting to do much about it. The net result is another blow to its credibility.

More importantly, however much the government wants to turn its back on the problem, it may not succeed. Given yesterday's EU ban, consumption of British beef is likely to remain chronically depressed. If so, the government may have little choice but to revert to options involving large-scale culling. Given the history of the problem, it is certainly likely to take more than ministers' soothing words to restore consumer confidence.

Additional Lex comment on Securicor, Page 21

Japanese parliament

Continued from Page 1

majority in both houses of parliament, the government is expected to get the plan through the legislature with relative ease within the next month.

In exchange for opposition co-operation, Mr Hashimoto pledged ample time for a budget debate. Still in contention was whether Mr Koichi Kato, the LDP's secretary-general, would be forced to appear before parliament to answer questions about a payment he is alleged to have got from a company involved in the collapse of one of the *jusen*.

Since March 4, NFP members have staged the sit-in to block voting on the budget. The showdown has unnerved financial markets as investors have feared that failure to gain approval for the scheme could lead to a further loss of confidence in Japan's financial institutions.

Ban on beef

Continued from Page 1

John Major, the prime minister, senior ministers decided to adopt a low-key approach to the growing BSE crisis, after receiving advice from scientists that children were not more likely to be at risk from eating infected beef.

The scientists also surprised Mr Douglas Hogg, agriculture minister, when they concluded that no additional precautions – including the possible destruction of part of the 11m national herd – were necessary at present.

Additional reporting by Clive Cookson, James Harding and Jimmy Burns in London

Labour primary kicks off Israel's election campaign

By Mark Dennis in Jerusalem

Israel's election campaign hit full stride yesterday with members of the governing Labour party voting in American-style primaries to set a list of candidates ahead of the national poll on May 29.

Members of the main opposition party, the rightwing Likud, vote today to form their candidate list for an election which has become a virtual referendum on the direction peace efforts will take.

Likud has promised to tailor the peace process to increase the security of Israelis, but has yet to offer substantive ideas as to how it would accomplish this. Many fear that its hardline stance could undermine or even halt the process.

Labour called the election after public support for both it and the peace drive rose sharply in the wake of the assassination of former prime minister Yitzak Rabin last November. But the party's popularity has been dented by the recent wave of suicide bombings and it has felt forced to play the security card as well.

"Israel is strong with Peres," declare Labour's posters while, paradoxically, its rightwing rivals promise "Peace with the Likud".

The primaries determine the order in which candidates will appear on party lists under Israel's proportional representation system. Voters cast their ballots for a party. The parties are then allotted places in the 120-seat Knesset according to the number of votes they receive. Ten parties gained at least one seat in the 1992 elections.

For the first time, the prime minister will be elected by a direct vote. Mr Benyamin Netanyahu, the Likud leader, is challenging the prime minister Mr Shimon Peres, the head of Labour. Previously the leader of the party with the most votes was asked to form the government.

The Labour primary was widely viewed as the first shot in the battle to succeed Mr Peres, who, at 72, is probably running in his last election. The main contenders are Mr Haim Ramon, the interior minister, and Mr Ehud Barak, the foreign minister.

Mr Barak, a hawkish former army chief of staff, is running Mr Peres's campaign for prime minister, while Mr Ramon, a dovish former renegade who once split from Labour over health policy, is head of the party's information committee for the elections. Polls showed the two men neck-and-neck for the slot behind Mr Peres as votes were being tallied last night.

The direct primary elections were first used by Labour in 1992. Proponents herald them as an opening of the Israeli political system, but critics say they could create crises, as candidates voted to the list as individuals have less incentive to maintain party discipline.

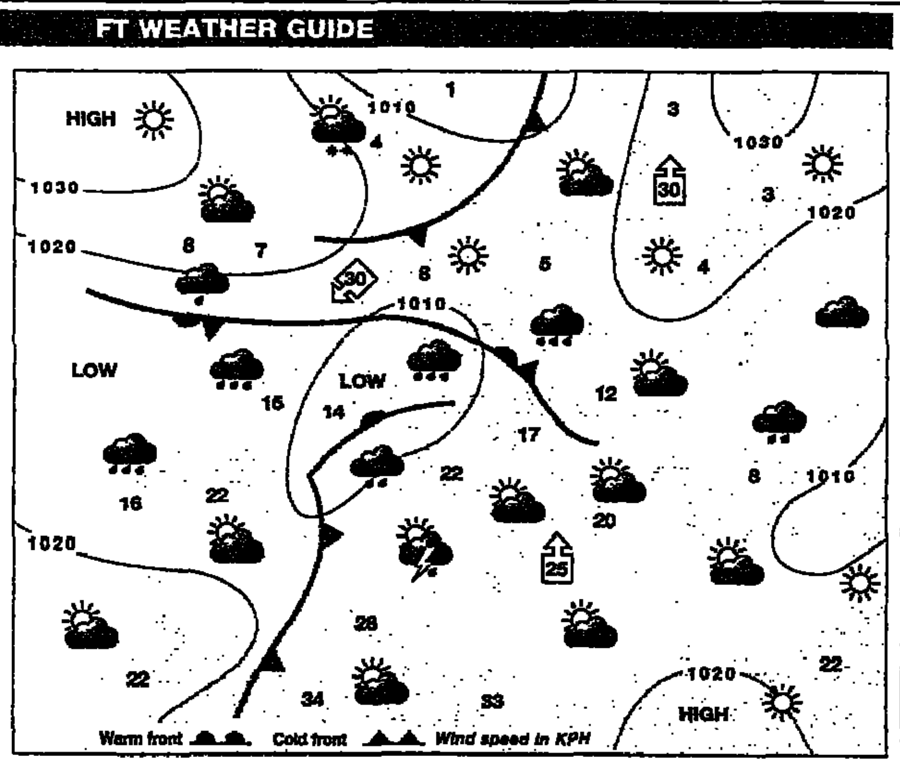
FT WEATHER GUIDE

Europe today

A high pressure area with its centre south-west of Iceland will influence western Europe. East of the system, increasing north-easterly winds will bring colder and drier air to the Benelux, northern Germany and the British Isles. This will give sunny intervals with rain or hail showers over eastern England and Scotland. Maximum temperatures of 4C-9C will be below normal. France, the Alps and southern Germany will have rain or showers with milder temperatures. Sunny periods will raise temperatures in Spain to 20C in places. Portugal will have showers and will be chilly. Italy will start rather sunny with a risk of thunder showers later.

Five-day forecast

Colder and drier air over north-west Europe will spread further south. Rain in France and the Alps will gradually be replaced by dry weather with sunny periods. Temperatures will fall, giving a risk of light frost at night. Active low pressure over the Mediterranean and the Balkans will cause many showers. Spain and Portugal will remain mostly dry with sunny periods. It will not be very warm, with temperatures between 14C and 21C.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius															
			Beijing	sun	14	Caracas	fair	29	Faro	fair	19	Madrid	fair	18	Rangoon	sun	36
			Belfast	fair	7	Cardiff	fair	6	Frankfurt	cloudy	12	Majorca	fair	20	Reykjavik	cloudy	4
Abu Dhabi	fair	33	Belgrade	fair	16	Casablanca	fair	19	Geneva	shower	18	Malta	sun	21	Rio	fair	30
Accra	cloudy	32	Berlin	fair	8	Chicago	sun	1	Gibraltar	fair	20	Manchester	fair	7	Rome	fair	19
Algiers	shower	22	Bermuda	fair	23	Cologne	shower	10	Glasgow	fair	6	Manila	fair	32	S. Frisco	fair	18
Amsterdam	fair	6	Bogota	shower	19	Dakar	sun	25	Hamburg	fair	7	Melbourne	sun	27	Seoul	fair	13
Athens	fair	17	Bombay	sun	35	Dallas	fair	12	Helsinki	snow	2	Mexico City	sun	22	Singapore	fair	31
Atlanta	fair	12	Brussels	fair	8	Delhi	sun	34	Hong Kong	shower	25	Miami	sun	28	Stockholm	sun	3
B. Aires	sun	30	Budapest	cloudy	11	Dubai	fair	32	Honolulu	fair	27	Milan	fair	17	Strasbourg	shower	15
B.ham	fair	6	C.hagen	fair	5	Dublin	fair	7	Istanbul	fair	10	Montreal	fair	0	Sydney	shower	25
Bangkok	sun	38	Cairo	sun	19	Dubrovnik	fair	17	Jakarta	fair	31	Moscow	sun	5	Tangier	cloudy	19
Barcelona	fair	18	Cape Town	sun	24	Edinburgh	fair	6	Jersey	rain	8	Munich	shower	15	Tel Aviv	shower	14
									Karachi	sun	35	Nairobi	fair	29	Tokyo	fair	14
									Kuwait	fair	23	Naples	fair	19	Toronto	fair	-2
									L. Angeles	fair	20	Nassau	sun	27	Vancouver	fair	8
									Las Palmas	sun	24	New York	sun	9	Venice	fair	15
									Lima	fair	26	Nice	shower	17	Vienna	cloudy	12
									Lisbon	shower	18	Nicosia	fair	17	Warsaw	fair	5
									London	sun	7	Oslo	sun	4	Washington	sun	19
									Luxembourg	drzzl	12	Paris	shower	14	Wellington	sun	19
									Lyon	shower	18	Perth	sun	26	Winnipeg	cloudy	-12
									Madeira	fair	21	Prague	shower	10	Zurich	cloudy	16